

PROCEEDINGS
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EMERGING PROBLEMS:
DOMESTIC AND INTERNATIONAL

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE SPRING
MEETING OF THE ACADEMY OF POLITICAL SCIENCE
APRIL 22, 1957

EDITED BY
DUMAS MALONE

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PREFACE

THE major problems that have appeared in our day—domestic and international—are so interrelated that no sharp line of demarcation can be drawn between them. At home we confront the questions of inflation and the budget, and—bearing on both—those of full employment and the health of business. Abroad we must face the old problem of colonialism, the more recent one of oil, and the newest and greatest of them all, the peaceful uses of atomic power. The Spring Meeting of the Academy of Political Science was devoted to these varied but inseparable issues.

We present the papers and informal comments of noted specialists in these PROCEEDINGS, along with such questions from the floor as there was time for. Also, we include a brief history of the Academy itself, which passed its seventy-fifth birthday between meetings. This was prepared by one who has known it well and contributed richly to it during the last generation of its life.

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PART I

INFLATION AND GOVERNMENT POLICIES

INTRODUCTION

GEORGE J. STIGLER, *Presiding*

Professor of Economics, Columbia University

THIS morning's session is devoted to "Inflation and Government Policies". It is one of the peculiarities of economic policy and governmental policy that frequently we do not know what it is we wish to prescribe for. In particular, at the present moment, many of the statistical indicators of the state of economic activity are falling or are at lower levels than they have been in the past—things like housing construction and automobile production. On the other hand, some things like national income, employment levels and prices have continued their upward march. We are in somewhat of the position of a physician who is to prescribe a diet for a person, and he is not quite sure whether in the next three months that person will have a tendency toward overweight or underweight.

I hope that our speakers today will shed some light on this, not only as a particular problem—what will business be like in the next six months in the United States?—but also as the general problem—how does one devise policies when he is not thoroughly up-to-date on the current situation and is considerably in doubt on the near future?

There is a second point that I hope we will get enlightenment on this morning; that is the question of who is responsible for the control of inflation. In the current economic report of the President, we find the following important paragraph: "Economic developments in recent years show the basic role that monetary and fiscal restraints must play if the excesses that often accompany prosperity are to be avoided. At the same time this experience suggests that fiscal and monetary policies must be supported by appropriate private policy to insure both a high level of economic activity and a stable dollar." The report goes on to emphasize that if we relied solely on the public policies and control of money, taxes and spending, the results would be too harsh in many sectors of the economy. This view is not spelled out. We are not told who will be responsible. We are not told how to implement the policy of asking labor and capital in their negotiations to take account not only of their interests but of the interest of the public. And I hope that on this subject, too, our speakers this morning will enlighten us.

Our first speaker is a distinguished economist, long resident at the University of Virginia, and a recent valuable export to Canada. He has long studied the problems of the fluctuating level of economic activity in democratic states.

I take great pleasure in introducing Professor David McCord Wright.

THE INFLATIONARY ELEMENTS IN THE CURRENT ECONOMIC SITUATION

DAVID MCCORD WRIGHT

William Dow Professor of Economics and Political Science,
McGill University

REFERENCE to the McGill Catalogue for 1955-56 will show me as Dow Professor of Economics and Political Science and it is as professor of economics and political science I am preparing this speech. Such a combination particularly fits inflation; for inflation is, of all economic problems, the easiest to analyze economically and the toughest to handle politically. The two aspects simply cannot be separated.

I

Now to the economic side: The American economy has been working at top speed. Our 2.5 per cent rise in real output for 1955-56 contrasts most unfavorably with the 7 per cent rise in 1954-55. Meanwhile the wholesale price index has risen about 4.5 per cent and consumer prices about 3 per cent. Employee earnings have risen, but absolute profits have remained the same. The rate of consumption increase has declined, but foreign investment has risen sharply. We *have*, still, all the money base needed for a great inflation. There is a national debt which the Federal Reserve System is more or less obligated to monetize on demand, and in monetizing to increase reserves. I would ask those whom this fact does not impress to ponder page 121 of the *Federal Reserve Bulletin* for February 1957 where the rapid disproportionate increase in the velocity of money that has been taking place is clearly shown. Or is good old $MV = PT$ too unfashionable (albeit true) to mention here?

There are of course models which could be used to spell out depression: Mitchell's profit lag for example, or the housing backlog, or Keynes's consumption lag. But for rea-

sons to be stated, I do not think they need detain us. For myself, I think we will be lucky if inflation goes forward *no faster* this year. Consider our present condition: full employment, a declining rate of growth of real output, plenty of potential (inflationary) elasticity in the money supply; and then—to get down to the real problems—piled upon this, the demands for armament, welfare and foreign aid.

II

I wish I could simply minimize the present emergency, call for economy and sit down. That is what I would do if I thought only as an economist. But there are other greater forces at work. Do not let us kid ourselves. The international situation, in my opinion, has seldom been worse. Russian reversion toward Stalinism reminds us of Schumpeter's ominous prophecy (in 1947) that *after ten years* the Red Army will be increasingly difficult to restrain from action. Some naïve people seem to think the Suez crisis is just a matter of the oil supply. Obviously they have never studied geopolitics. Suez is *also* the land bridge from the heartland to the most vulnerable third of the World Island. What good will it do for tankers to round the Cape if Russian legions stand at Morocco and Dakar? And next at the Cape itself? The martyrdom of Hungary has caused many of the ex-colonials to think again. But there is a great way yet to go. I believe it is good Marxism to talk of nationalism as sometimes the "catalyst" of red revolution. If so, an Arab "catalyst" is likely to become operative at any time.

Under these circumstances it is folly to talk of economy as our top aim. Our top aim is peace—if possible—and survival in any case. On the other hand, inflation is one of the most potent disintegrators of home morale and civilization generally. We want to avoid it if possible. What to do?

In a sense our values make it *somewhat* less difficult to outline economic policy. Since we are unwilling to start a war ourselves, except on the gravest provocation, we leave the strategic initiative to Russia. I do not discuss the military wisdom of this. I just take it as apparent fact. The consequences of the fact, however, are that once we have ac-

cumulated what we believe to be adequate defensive force, the rapid obsolescence of military method makes it undesirable to keep on investing too much in a stock of *finished* military equipment which may be as useless to us if war does break out as the Maginot Line was to the French. Stock-piling of war materials is different. On the other hand, I do not think the draft should be abolished. Rather, I believe it should be extended. The draft has two functions: first, to give our young men some preliminary introduction to military discipline; second, to keep alive, in the midst of our cellophane-wrapped complacency, some appreciation of the deadly danger we are in. Finally, we should press forward with all possible effort in basic military and scientific research upon new weapons and tactics.

III

Since I am not a military man, I cannot say anything more. But now I move into a field more in my line—foreign “aid”. That foreign aid has an inflationary potential, now, goes without saying. Like military aid, therefore, we have to look at it carefully. But if it really is essential, then it must be provided for somehow.

Yet in this connection, and despite some recent disclaimers, I feel that the peace-winning effect of government foreign aid has been egregiously overvalued. Democracy and freedom are *not* just bread. Furthermore, it is doubtful if even a crushingly heavy (upon us) program of gifts could make any appreciable short-run dent on the poverty of the world. What we need to export is *understanding* of the growth process.

This works in two ways. First, as to goodwill. If I believe that you have swindled me out of \$10,000 and you stop me on the corner one day and very kindly give me \$100, will that make me love you? Or will it only make me think of ways of getting back the other \$9,900 I think you have stolen from me? Now, in a large part of the world today Canadian and United States wealth is regarded as swindled from the “backward” countries. Such a conclusion follows directly from Marxian analysis. And note that I say Marxian—not

just Communist. Unless we are willing to take on Marxian thought on a basic *scientific* level in a way we have so far not been willing to do, the current of world opinion will continue to run against us.

Next, as to growth itself. The ideas that I am talking about, let me stress once more, are not just Communist but Marxist and are entertained by many sincerely anti-Communist people. Yet we cannot export understanding of growth, if we do not have it ourselves. Our numerous, effete, silly intellectuals living still in the great depression are about the last people who can help.

What "backward" nations need is not just money, not just machinery, not even just skills. What they need is knowledge of the *political* and *social* institutions and attitudes of mind which make for the growth of a free people. Thus we need to talk about the need for creating a desire to achieve, the need for permitting incentives for effort, that is, inequality of rewards, the impossibility of avoiding some conflict, and the fundamental paradox of capitalism which is that on balance *my* more does not mean *your* less—but more for all. Yet, to many sincerely anti-Communist people, what I have been saying is just about the equivalent of original sin! I would like to elaborate, but space compels me to refer you to my article in February *Fortune* instead.

Another source of muddleheadedness is the indiscriminate use of the slogan "colonialism". There *is* such a thing as "colonialism" just as there is such a thing as "exploitation". But the Marxist applies the slogan exploitation to *all* property, and some of our evangelical anti-colonials (and of course the Marxists) seem to apply the slogan colonialism to *everything* ever done by those unfortunate nations which have committed the great crime of spreading the values of Christianity and democracy around the world.

Some of our thinkers, it sometimes seems to me, if they were logical, should burn up the Declaration of Independence because it is clearly, to any sociologist, a bit of French and English culture written by men trained by foreigners! Instead of smearing our friends, should we not try to sort out in our minds, and in those of others, the good from the bad

features in the colonial past? Remember, certain things must be done to preserve the free world. If we *indiscriminately* condemn the past and then are *ourselves* confronted with the same problems, will we not find we have tied our own hands? No amount of talk about the United Nations can avoid the fact that it is on *us* that most of the burden rests.

IV

I suppose the gist of what I am saying is that the party is finished, for America even if we don't know it; the joy ride is over; America's days of happy international irresponsibility under the protection of the *Præ Britannica* are past. We are like heirs confronted not merely with the pleasures of our estate, but also with the crushing responsibility it carries with it.

We, if we are to be worthy of the great hope of our nation, have got to get the fuzz out of our minds, to peer through our picture windows beyond the flowers in the tidy new front yard to the sobering, dreadful problems that lurk beyond. A stern choice of alternatives lies before us if we are to survive. No more can we vote "this"—if we want to survive and prevent inflation—without realizing that voting "this" means giving up "that"! Nowhere does the shoe pinch harder than in the case of welfare expenditure. If there were no other crisis, increased welfare services would be possible without inflation or increased taxes. But, after military aid, after moderate and careful foreign aid, where is the surplus left for our federal government—even if such heavy centralism were desirable? Personally I don't think it is. Particularly, where will the saving come from to build the plants to pay the wages we want, to provide the production we need? This is *not* 1935. The rate of interest, if anything, should be higher, not lower.

American thinking today, it seems to me, tends to be fat, cocksure, sanctimonious and confused. But it is time to stop being teen-agers. I realize I have said a good many unpopular things. I beg that you will not think I have said them gratuitously. Rather I have done it as Thomas Henry Hux-

ley said, "in the conviction which has grown with my growth and strengthened with my strength, that there is no alleviation for the sufferings of mankind except veracity of thought and action, and the resolute facing of the world as it is when the garment of make-believe by which pious hands have hidden its uglier features is stripped off."

REMARKS BY THE CHAIRMAN

CHAIRMAN STIGLER: Thank you, Professor Wright!

Professor Wright has emphasized the ominous pressures of our external or international position as a cause of progressive inflationary pressure in the years that lie ahead. This raises the question, do we have also very strong internal pressures toward inflation?

I understand that the subject of our next speaker, "Full Employment as a Cause of Inflation", will bear in this direction. Dr. Emerson Schmidt has been head of the Economic Research Section of the United States Chamber of Commerce for ten years. In that time he has established a national reputation for his close command of facts and his hard-headedness in bringing them to bear in the public interest. It gives me great pleasure to present to you a former colleague, Dr. Schmidt!

FULL EMPLOYMENT AS A CAUSE OF INFLATION

EMERSON P. SCHMIDT

Director, Economic Research,
Chamber of Commerce of the United States

FULL employment may be more the result of inflation than its cause, although inflation is not necessary to sustain high employment. A public commitment to maintain full employment may lead to fiscal and monetary policies which will be inflationary.

What Is Inflation?

Are rising prices inflation, or are they merely the result of inflation? What prices are the best measure of the value of money?

No subject can be treated scientifically unless definitions are clear and words have agreed-upon meanings. Public policy also should rest on clear-cut understanding of the meaning of words. It should also reconcile several policy goals, including, here, high-level employment, economic growth and general price stability, all within a free market economy.

Inflation, according to one working definition, is a disproportionate and relatively sharp and sudden increase in the quantity of money or credit, or both, relative to the amount of exchange business. Inflation always *produces* a rise in the price level.

In popular language and even in some policy-making circles, this definition has been telescoped to read: "Inflation . . . is a rise in the price level."

This change in meaning has slipped into the language almost unnoticed, with some serious effects. A symptom has taken the place of the disease and it is not surprising to find some groups advocating treatment of the symptom (price rises) by direct means (price controls) in a manner somewhat akin to immersing a fever patient in ice water to cool him off.

If this technical definition of inflation is acceptable, it becomes clear that inflation is related primarily to monetary and fiscal policy. The great upward price surges throughout history have been identified with substantial deficit spending by central government, although gold discoveries and major changes in banking policies, particularly with reference to reserve requirements, have also contributed to inflationary spurts.

To measure the value of money, we also need to employ some economic shorthand, an index number. In most general use is the Consumer Price Index of the Bureau of Labor Statistics; but for certain purposes, other indexes may be more relevant—in the agricultural industry, for example. Whatever index is used its limitations should be recognized.

The Consumer Price Index drifted lower in the 1920's after 1924, year after year. Had our index included real estate and stock prices in the 1920's, the complacency which preceded the crash of 1929 might have been mitigated.

Similarly, we need a definition of "full employment" in order to answer the question which is posed. Sir William H. Beveridge not only defined "full employment" as a condition of "having always more vacant jobs than unemployed men", but argued that this should be the public policy goal.¹ Still depression-conscious, he was aware that this goal would subject the economy to upward price pressures, but he was prepared to accept such pressures and deal with them by numerous state interventions and compulsions, including the socialization of private property and government wage-fixing, which Americans would find anathema; even the British do not seem to relish them. The Delegation on Economic Depression appointed by the League of Nations stated that the primary objective of economic policy is to assure that in so far as possible no man or woman able and willing to work should be unable to obtain employment for periods of time longer than is needed to transfer from one occupation to another or, when necessary, to acquire a new skill.

The possible implications for consumer prices of such a level of employment can readily be envisaged if we ask our-

¹ *Full Employment in a Free Society* (London, 1944).

selves what would happen to rents, if we always had more tenants seeking space than there was space available at current prices. That rents would rise is easy to see.

How full must employment be, then, for full employment to cause inflation? Perhaps the most commonly used maximum unemployment regarded as consistent with "full" employment is 4 per cent of the labor force. Or, attaining 96 per cent employment is widely regarded as a reasonable practical maximum for purposes of public policy. Thus Neil H. Jacoby, former member of the Council of Economic Advisers, states: "While frictional unemployment is hard to measure accurately, the consensus of economists who have studied the matter is that the U. S. economy has full employment in a practical sense when 96 per cent of the work force have jobs and about 4 per cent are in process of changing jobs."

Senator Paul H. Douglas in 1952, however, suggested that such a goal was too high to justify the invocation of fiscal policy. He said:

I submit as a rough judgment that probably we should not run a governmental deficit unless unemployment exceeds 8 per cent and, indeed, possibly slightly more than that. When unemployment is between 6 and 8 per cent, the governmental budget should at least balance and therefore be neutral in its effects. When unemployment is over 8 per cent, we should have a deficit; but when it is under 6 per cent, there should be a surplus.²

Bertil Ohlin says: "Full employment is the degree of employment that exists when the aggregate demand for commodities is at the highest level that is compatible with the condition that demand at existing prices is balanced by current supply."³

Does experience suggest what level of employment is in keeping with the preservation of the purchasing power of the dollar?

Any appeal to the statistical record may be subject to many doubts and questions. But for what the record since

² *Economy in the National Government* (Chicago, 1952).

³ *The Problem of Employment Stabilization* (New York, 1949).

1945 is worth, it does suggest that 4 per cent or less unemployment is not consistent with stability in the Consumer Price Index as can be seen from the accompanying table.

<i>Year</i>	<i>Unemployment as % of Total Civilian Labor Force</i>	<i>Year to Year Consumer Price Changes *</i>
1946	3.9	+ 6.5
1947	3.6	+ 12.1
1948	3.4	+ 7.3
1949	5.5	- 1.0
1950	5.0	+ 1.0
1951	3.0	+ 8.2
1952	2.7	+ 2.5
1953	2.5	+ 0.9
1954	5.0	+ 0.4
1955	4.0	- 0.3
1956	3.8	+ 1.7
1957 (3 months)	4.6	+ 0.5

* Percentage point changes based on 1947-49 = 100.

When unemployment was below 5 per cent the value of the dollar generally deteriorated. In 1949 and 1950 unemployment reached 5.5 per cent and 5 per cent, respectively. In 1949, consumer prices declined by 1 percentage point and in 1950 they remained steady until Korea. In 1954 and 1955 unemployment reached 5 per cent and 4 per cent respectively, while consumer prices declined 0.3 percentage points in 1955 and rose only 0.4 percentage points in 1954. In the other years since 1945, unemployment generally averaged under 4 per cent and prices generally rose from a minimum of 0.9 in 1953 and 1.7 percentage points (1956) to a maximum of 12.1 in 1947 and 8.2 in 1950.

What, then, does the record indicate? The period since 1945 has been one of post-war readjustments with suppressed inflation in the early part, then a Korean War and large government budgets ever since. The statistics themselves are at best rough measures and certainly not beyond dispute. No attempt is made here to refine them. But, apart from these and other limitations, the record does suggest as a possible tentative conclusion that unemployment below 4 per cent may not be consistent with the preservation of the value of the dollar. If one of our essential goals is stability in the

purchasing power of the dollar, unemployment in the neighborhood of 5 per cent is more conducive to such stability than unemployment of 4 per cent or less.

Overemployment and Growth

Over-full employment may not mean full or satisfactory production. Ohlin argues against over-full employment because it encourages labor hoarding, excessive labor turnover, overbidding of wages by employers, and makes recession or depression more probable. He doubts that an increase in average employment from 96 to 98 per cent, for example, will add to the volume of output.

It is shocking to see how slow our economic progress has been in the last decade. Although the gross national product in real terms increased by 40 per cent, our per capita real income has increased only \$182 since 1946, or approximately \$18 per year per capita. Personal per capita disposable real income has increased only \$137 in the ten-year period since 1946, or \$13.7 per capita per year. In both government and private enterprise all sorts of busy work, paper work, public relations and other "nonessential essentials" are absorbing our time, resources and dollars.

Colin Clark has repeatedly argued that when government absorbs 23 to 25 per cent of national income, inflationary forces are set in motion. In addition to overemployment, other forces, it must be noted, may subject the economy to inflationary forces. As recently as 1954, total federal, state and local tax and nontax government receipts came to \$89.6 billion. In 1956, the figure reached \$107.6 billion. In 1956, our national income stood at \$343 billion. Thus, nearly one-third of the national income is channeled through government. We are approximately one-third socialized. If the government sector continues to grow, as it has since 1929, in 50 years 99 per cent of our economy will be socialized and only 1 person out of 100 will be privately employed. Perhaps no one expects this trend to continue, but there is nothing in sight at the moment that is stopping it.

Just as human wants are unlimited and insatiable, it appears that the pressure for government intervention and expenditures is unlimited and insatiable.

Is There a Wage-Price Spiral?

Most economists would say there is a wage-price spiral, particularly under conditions of labor scarcity. But it is not a simple phenomenon, nor can it be induced by cost pushes alone. Rising costs would create unemployment unless monetary and fiscal policies were conducive to increasing total money demand at the same time. In spite of differences in detail, there is fairly general agreement on the following:

- (1) The proximate cause of inflation is excessive money demand relative to output.
- (2) *Substantial* inflation must be fed and supported by an expanding money supply, or significant increases in the velocity of money, to finance increased demand.
- (3) Costs play a critical rôle. "Cost-push" factors, such as successful massive wage demands, may operate either directly or indirectly as important continuing forces, pushing the level of prices higher than they otherwise would go. Or, with the present structure of the economy, they may operate as *initiating* forces, if they are accompanied by passive monetary policies or expansive governmental fiscal policies which allow, or provide, more or less automatic increases in the supply of money and in aggregate money demand for output.

Negotiated Wages and Inflation

Much of the debate over wage-price spirals has centered on the impact of unions and negotiated wages on the cost-price structure and cost-price level. Union officials claim that wage increases do not contribute to inflation because they are paid out of the gains in labor productivity without increasing costs and prices. To divert attention from the cost push of excessive wage demands, they point to profits as the cause of high prices. They claim profits rise with productivity and become excessive, unless higher wages are demanded. These higher wages, they say, could come out of profits without price increases.

There is probably more confusion, misunderstanding and propaganda about how wages are related to profits and prices

than any other aspect of the wage-cost problem. It is, therefore, pertinent to inquire more fully into the interrelations among wages, productivity and profits.

Wages and Productivity

It is argued that as long as increases in negotiated money wage rates are proportional to increases in man-hour productivity, they do not raise per unit costs and, hence, do not exert upward pressures on costs and prices.

This popular view, so uncritically accepted by union officials, some business leaders, politicians, the general public and even, unfortunately, some economists, reflects a serious misconception and confusion about the catchword "productivity".

For the economy as a whole, of course, increases in real wages and incomes are limited to increases in output. As long as average money wages for the whole labor force increase proportionately with increases in net output per man-hour, both money and real wages can rise together at a stable general level of prices. But to apply this formula to particular firms or industries is a crude fallacy that has been exposed again and again. Peter Wiles put it this way:

Thus, since the Middle Ages, there has been great technical progress in the production of wheat, a little in the building of houses, and none in the saving of souls. Yet the *relative* incomes of farmers, bricklayers and priests have not, after making all qualifications, greatly changed; nor should they have.⁴

Professor Fritz Machlup of The Johns Hopkins University has well stated: "It [this fallacy] is unsound for at least three reasons: (1) it is economically foolish; (2) it is ethically intolerable; and (3) it is politically impossible."⁵

Productivity improvements take different forms. In some cases, capital is substituted for labor in such a way as to reduce the demand for labor in the industry concerned. In

⁴ *Encounter*, London, September 1956.

⁵ *Wage Determination and the Economics of Liberalism* (Washington, D. C., 1947).

such cases, free market wages would drop a bit and surplus workers shift to other industries or occupations where they will add to total output of the economy.

In other cases, more capital, improved techniques and better management may increase both productivity and the demand for labor at the same time. Here, wages tend to rise, drawing additional workers into the industry. In both cases, however, per unit costs should fall with improved productivity. The gains normally would be diffused throughout the economy by competitive adjustments in relative wages and relative prices.

Consider the long-run results of using the fallacious productivity-money-wage formula in a negotiated wage contract unless it is limited to the growth in efficiency of the economy as a whole. Productivity improvements do not occur evenly throughout the economy or over time. In manufacturing, great gains may be made. Elsewhere, possible improvements are more limited. Let us assume that, in manufacturing, money wage rates are always increased immediately and precisely in proportion to increases in net output per man-hour. In an expanding economy, nevertheless, no increase in manufacturing prices or profits need occur. Over a period of time, both money and real wages in manufacturing could rise. But the real and money incomes of all other workers, where productivity has not risen, remain constant. In other words, a wedge is driven into the distribution of income, with one group receiving an ever-increasing percentage of total output.

Of course, some partially offsetting adjustments will take place. Workers in less productive occupations will try to transfer in response to rising wage differentials in manufacturing. But employment opportunities will be restricted in manufacturing because negotiated wages absorb the new cost savings, prevent profit margins from rising and thereby curtail normal expansion. In a free market, supply would increase, causing prices to fall, and temporarily-higher prices would be forced back to normal rates.

Obviously, under the conditions outlined, a situation develops which is ethically intolerable. Workers in occupations where productivity has not increased (or has increased

less rapidly) sue for wage increases to wipe out the growing differentials. Employers in less productive occupations are caught in a price-cost squeeze. Unless expansive monetary-fiscal policies allow these prices to rise, unemployment will result. Pressures will build up for higher minimum wages, for special credit considerations and for "easy money". Ironically, then, some "inflation" may be vital to the continued existence of certain businesses and occupations.

In summary, it should be pointed out that under the current tenets of wage determination, quite apart from the question of particular wage increases in excess of productivity, escalator clauses and the like, negotiated wage rates, even though limited to increases in output per man-hour in the particular industries concerned, may lead to persistent upward pressure on the cost-price structure.

In part the problem of the wage-price spiral boils down to conflicts over the distribution of income which make control of inflation through monetary and fiscal policy much more difficult. As a result of both direct and indirect effects, average money wage rates for the economy as a whole are pushed up faster than productivity for the economy as a whole.

Wages, Profits and Prices

The popular argument that high profits, rather than increased wage costs, are the cause of rising prices merits little consideration in a serious discussion.

Profits are a fluctuating, residual share of our national income. In boom periods there may be temporary rapid increases in profits, just as in recessions they fall rapidly. But over time corporate profits have been declining somewhat as an income share. From 1950 to 1956 our gross private product (excludes government) increased by \$112 billion. In the same period, compensation of employees increased by \$85 billion, while corporate profits after taxes were actually lower by approximately \$0.6 billion in 1956 than in 1950.

In 1929 corporate profits after taxes were 8.3 per cent of the value of gross private product. *It is significant that in no year since 1950 (the outbreak of the Korean War) have corporate profits after taxes reached the 1939 level of 6.0 per cent.* Obviously, the tremendous increases in wage income

could not have been paid out of profits. To the extent that average money wage rates were pushed up faster than increases in output per man-hour for the economy as a whole, they had to be paid from additional revenues obtained from price increases.

If output can be increased as fast as the money demand for output is enlarged, inflation of prices need not occur. But productivity will be increased only if profit margins are large enough to provide business men with incentives to invest in new capital equipment. Adequate profit margins are indirectly a defense against inflation rather than a cause of inflation.

Monetary and Fiscal Policies

"Cost-push" forces cannot induce much inflation unless monetary and fiscal policies allow money demand to expand also. The money must come from some place.

Can the wage-price spiral be controlled by monetary policy? Theoretically, yes, and in practice, yes—provided monetary policy is reinforced by other public policies to make it effective. There are, however, some practical considerations which limit the effectiveness of general monetary controls.

(1) The large volume of federal debt, a considerable part of which must be refinanced each year, is a major stumbling block.

(2) Monetary policy bears directly on only one segment of the money market—commercial banking.

(3) Credit restrictions tight enough to control inflation call forth vigorous opposition in many quarters, paradoxically often from the same groups who complain most bitterly about the rising general level of prices. Some groups benefit from inflation, and credit rationing weighs more heavily on some borrowers than on others. Consequently, all sorts of political and group pressures are brought to bear to prevent the brakes from being applied, or to demand that government take action to throw away the brakes for particular groups who want more credit than they can get on terms which please them.

(4) There are administrative difficulties—when and how much restriction? It may be impossible to stop advanced inflation without creating some of the symptoms of depression. As we have seen, cost levels get pushed up and distorted and velocity may increase. Monetary authorities must be cautious, or be blamed for recession.

Attack on Monetary Policy

Several members of the Joint Congressional Committee on the President's *Economic Report* in the *Joint Economic Report* in 1955 argued: "Instead of being used to promote full-employment, maximum production and purchasing power, fiscal and monetary policies have been, and are being, used to promote the interest of the lending and investment classes and a handful of giant corporations at the expense of the farmer, small businessmen and employees" (p. 43).

A number of members of Congress have continued to reiterate the same idea. On October 2, 1956, for example, a Congressman said that credit restraint "has been dipping in the pockets of small businessmen, home owners, farmers and consumers and exacting interest rates which favor lenders."

Thus, it is clear that the foundations of sound-money-maximum-employment policies are imperfectly understood, even in high places. Since the U. S. Treasury-Federal Reserve Accord of 1951, the Federal Reserve has been striving to protect the purchasing power of the dollar. The mechanics at its disposal are not perfect. But when everyone is trying to borrow the maximum and when our economy is apparently trying to do too much and we have over-full employment, something has to give. By raising rediscount rates or reserve requirements and by handling open-market operations in a way which does not add to commercial bank reserves, the soundness of the dollar tends to be preserved. Credit restraint means that some potential borrowers or would-be borrowers not only are required to pay somewhat higher interest rates, but, perhaps, borrow somewhat less than they had intended. Again, something has to give.

As the purchasing power of the dollar is preserved, all dol-

lar savings, such as mortgages, bonds, life insurance, savings deposits, have their values preserved.

It is inevitable that lenders in such a period will get a better return. But this is not the objective of a sound-money policy. It is an incidental effect. Increases in interest rates tend to raise the income of bankers and other moneylenders. Critics of flexible interest rates are making a mockery of one of the essential functions of the government, namely, to maintain an honest currency.

While the 3 per cent rediscount rate, existing in all twelve of the Federal Reserve banks, is the highest in nearly a quarter of a century, this rate is not high by historic standards. Prior to 1930, 3 per cent was the bottom of the range of rediscount fluctuations. Under boom conditions in earlier periods, the rate went to 6 per cent in 1929 and 7 per cent in 1920. In 1955, interest payments accounted for only 3.3 per cent of the national income, as against 6.3 per cent in 1939. These facts should help put the "money controversy" and recent full-employment problems in better perspective.

The average person can never be expected to take the time and trouble to master these intricacies. But urgently needed are informed thought leaders in every community, whose judgment and public spirit are unquestioned, who will lead in the struggle for freedom—including the flexible money market.

The power to prevent inflation (and to some extent, deflation) unquestionably is now at hand in the United States Treasury and the Federal Reserve System. Enlightened public support on the side of reasonable price stability is indispensable to strengthen the hand of these monetary authorities, and prevent full employment from collapsing into unemployment.

While the Federal Reserve or, even more carelessly, the Administration is blamed for tight money, actually the Federal Reserve has *followed* the money market far more than it has led it. For example, total loans and investments of commercial banks rose from \$156 billion at the end of 1954 to \$165.7 billion at the end of 1956, or by \$9.8 billion. *In this same two-year period, however, total private and public debt increased \$84.3 billion.* In 1956, private and public

debt increased by approximately \$32 billion, while the rise in commercial bank loans and investments was only \$4.8 billion. In other words, in the overwhelming majority of loans, the borrower and lender are perfectly free to negotiate whatever rate is mutually satisfactory. The Federal Reserve has no legal or direct control over such transactions whatsoever. *The tail does not yet wag the dog.*

Nevertheless, because of the alleged tight-money policy, innumerable efforts are made by politicians and government bureaus to get around this alleged credit restraint, via direct government loans, via taking on state and local responsibilities, and in other devious fashions.

C. Canby Balderston, Vice Chairman of the Federal Reserve Board, made it clear that every attempt to create a preferred position for any group concentrates that much more fiercely, in a full-employment economy, the stringencies on the balance of the economy. He put it this way:

The alternative to free markets is to resort to government subsidies, guarantees and tax benefits. These may shelter preferred groups and meet apparent social needs, but we must not forget that each time we use them we subtract from the credit, materials, and labor available to others who must rely upon the free market. The greater the amount of special shelter provided by government, the more difficult becomes the situation of those not so protected. In a free society, it is axiomatic that not everyone can be sheltered. It is understandable, therefore, that free markets should be looked upon as the central feature of our private enterprise system.

Fiscal Restraints

Fiscal policy, too, could provide effective restraints through reduction of government expenditures and higher tax rates. The limitations of such anti-inflationary policies are all too obvious. Quite apart from the difficult question of timing, expenditures are determined by considerations other than inflation, and during inflation, government costs also rise. Increased taxes are politically unpopular and their effectiveness would depend on the tax structure and the particular taxes increased. If taxes reduced savings rather than con-

sumption, or if they seriously impaired incentives, demand would not be reduced and production might fall. Conceivably, then, increased taxes could add to inflationary pressures, though usually they are deflationary.

Guaranteed Full Employment?

The responsibility assigned to government to maintain conditions of continuous maximum employment poses serious problems. Even if we had a perfectly competitive system of flexible costs and prices, a perfectly operating monetary and financial mechanism, and a most wise and responsible government body, the task would be fraught with difficulties. The difficulties are intensified by "built-in" structural rigidities and rigidities "pushed in" by monopoly elements, particularly wage and other labor costs.

Necessary and normal readjustments of inventory—shifts of resources from one industry to another in response to changes in tastes, technology and supply of resources—of necessity create pockets of "frictional" unemployment. Unfortunately, any kind of an adjustment sets off an immediate and loud outcry for government to "do something" lest a major depression develop. It is politically expedient for government to err on the inflationary side, adopting spending and credit policies which prevent normal adjustments. Furthermore, with pressing clamor from all sides for more government programs and services, it hardly seems realistic to expect government to adopt restraints—though it often urges business and labor to do so.

Full-employment guarantees, coupled with cost rigidities and administered wage rates, are likely to perpetuate overfull employment and increase the likelihood of wage-price spirals. As Professor Kenneth Boulding put it:

We all (or nearly all) consent
If wages rise by ten percent.
It puts a choice before the nation
Of unemployment or inflation.⁶

Monopolistic labor unions can be more insistent and successful in jacking up costs when the fear of unemployment is

⁶ *Impact of the Union*, David M. Wright, et al. (New York, 1951).

not imminent. Also, bottlenecks, increasing costs and inflation often manifest themselves before the system reaches capacity. Bertil Ohlin says:

The idea of keeping the "volume of purchasing power" permanently well above the "equilibrium level" in order to guarantee to everybody an easy access to employment is evidently not such a brilliant one as many people came to think during the last war. . . .

Thus, to keep up total demand at a level where it is very easy for anyone to find a job is no panacea for our economic ills.⁷

This, Ohlin argues, will lead to wasteful use of resources, minimize the necessary balancing and economizing forces, and probably lead to the waste and expense of direct controls by government.

Some pessimistic observers feel that the choice is between extremes: unemployment or price inflation. Others recommend that the Employment Act of 1946 be amended to make reasonable price stability an explicit responsibility on an equal footing with the "maximum employment" commitment.

The Long-Run Outlook

There may be contradictions inherent in the economic objectives of government. Instead of the dilemma of inflation or unemployment, some say that we really face a trilemma of trying to achieve three partially incompatible economic goals at the same time: price stability, full employment, and economic growth (rising real incomes).

Does Our Economy Have an Inflationary Bias?

Are we faced with the unpleasant prospect of perpetual, even accelerating, long-run secular inflation? If so, how will it affect the future course of growth and change in the economy?⁸

⁷ Ohlin, *op. cit.*, p. 4.

⁸ For a significant analysis of this problem, see *Creeping Inflation—Curse or Cure?*, a "debate in print" between Sumner H. Slichter and Heinz Luedicke, Editor, *Journal of Commerce*, 1957. Reprints available from the Editor, *Journal of Commerce*, New York.

The reasons advanced for believing that inflation is inevitable must be taken seriously. It is possible that the "inflationary threshold" for the economy may be reached without having full employment. Wage-cost-price rigidities, as discussed earlier, may force inflation on the economy and governmental authorities at any reasonable full-employment level. In addition, the more and more we seek devices to minimize or nullify the impact of inflation on particular groups, the more difficult it is to contain inflation. Escalator clauses, now used in many wage contracts, are advocated for certain other contracts. Price supports for agriculture have an escalation feature which may be incompatible with widespread use of cost-of-living escalators for industrial wages. Together they may produce upward pressure on prices.

Escalation for everyone would, of course, be self-defeating, which in itself may provide some protection against continuous inflation if we assume that society is more rational than irrational. The problem has been put squarely by Paul W. McCracken in these words:

Price inflation is the way market forces endeavor to boil the surplus purchasing power out of the system. But if we set up escalator machinery by which as fast as the excess is removed it is promptly pumped back into the economy, the end result of a policy of slowly rising prices is certain to be prices rising not so slowly.⁹

The full-employment commitment of government may make some inflationary bias inevitable. If organized pressure groups prevail, effective monetary and fiscal measures to combat inflation will not be taken. Sumner H. Slichter attributes the growing threat of the wage-price spiral to the weak bargaining position of the employer. Some students believe that the consumer can be better protected by reducing the power and scope of collective bargaining. This could be done by changing national laws to encourage local bargaining and prohibiting compulsory unionism. An employer might be required to deal only with labor representatives chosen in a secret ballot by his own employees *from among his own employees*.

⁹ *Michigan Business Review*, University of Michigan, September 1955.

Some people doubt that the Federal Reserve authorities can pursue monetary policies stringent enough to discipline massive and ever-growing demands by monopoloid labor unions. Others go further and say that this heavy responsibility should not be shifted to Federal Reserve shoulders. The courage of the Federal Reserve authorities in the face of violent criticism from many sources, such as in 1956, may not endure indefinitely.

More optimistic observers believe that the difficulties, political and economic, are not insurmountable. They point out that control of inflation has become, in fact, an unshiftable political responsibility. As incomes rise, more and more people find they have a direct stake in controlling inflation. Most working men have substantial savings in life insurance, retirement plans and pension funds. The optimists hope that widespread ownership of fixed money claims and improved economic literacy on the part of the public will provide limits beyond which passive attitudes and policies toward inflation will not be tolerated.

Prospects for Economic Growth

It has been a recurrent popular notion, almost as old as the phenomenon of inflation itself, that a little mild, gradual inflation may be a not too disagreeable economic tonic which will stimulate economic expansion and provide a larger real output in the long run. Of course, this is dangerous wishful thinking which has been exploded again and again. Gradual inflation, if the community expects it, may develop into advanced inflation.

But more important from the standpoint of economic growth is the effect of inflation on savings and capital accumulation.

On the more optimistic side, it is encouraging to note a growing realization on the part of a few politicians and opinion and thought leaders of the magnitude and importance of the long-run inflationary problem and its possible implications for continued improvement of economic welfare. Inflation of 3 per cent per year compounded would cut the value of the dollar in half every twenty-five years. It

is gratifying to note, however, that in terms of peak 1920 prices, we still have a 75¢ dollar.

It is not yet clear whether a satisfactory solution can be devised which prevents strong unions from making wage demands which cannot be supported by current output and which will insure prompt and vigorous monetary and fiscal policies to restrain inflationary pressures (even though a little pain and some disappointments are involved) and encourage adequate saving and productive investment. It will depend not only on recognition and understanding of the problem on the part of key individuals, but also on how politically mature and forthright we are in facing it.

REMARKS

CHAIRMAN STIGLER: Thank you, Dr. Schmidt!

I am particularly happy to endorse the emphasis that Dr. Schmidt put upon the fact that wages in particular fields should not be geared to productivity in those fields, since I belong to a profession which has successfully resisted technological advance for five hundred years.

We turn now from the general structure of internal pressures upward on the price level which are with us and will be with us in the long-term future, to a survey of the more immediate situation, in a paper to be entitled "Price Inflation and the Business Outlook". No one is more knowledgeable in this area of the present structure and condition of the American economy than our next speaker who not only is an academic observer, but has played a strategic rôle in some of the most important wage negotiations in recent times. I take great pleasure in introducing Professor Jules Backman.

PRICE INFLATION AND THE BUSINESS OUTLOOK

JULES BACKMAN

Professor of Economics, New York University

THE creeping advance in wholesale prices from June 1955 to December 1956 and the accompanying rise in retail prices right up to the present time have created concern that a new inflation spiral is under way. In the light of the substantial increases in prices during World War II and the post-war period and during the early part of the Korean War, concern over a possible third leg in the inflation spiral is understandable.

CHANGES IN PRICES

(1947-49 = 100)

	<i>Wholesale Price Index</i>	<i>Industrial Price Index</i>	<i>Consumer Price Index</i>
1939	50.1	58.1	59.4
Sept. 1948	106.1	105.1	104.8
% Increase	111.8	80.9	76.4
June 1950	100.2	102.2	101.8
March 1951	116.5	117.3	110.3
% Increase	16.3	14.8	8.3
June 1955	110.3	115.6	114.4
Feb. 1957	117.0	125.5	118.7
% Increase	6.1	8.6	3.8

It is important, therefore, to examine the nature of the recent price rises in order to determine the forces which have created pressure for higher prices.

Price inflations in this country traditionally have been associated with unbalanced federal budgets and with sharp increases in money supply. Since June 1955, the federal budget has been in the black and the rate of increase in money supply has been below the long-term average. However, there has been an increase in the velocity of money. It is the absence of these monetary and fiscal pressures for inflation which distinguishes significantly the recent developments from those which characterized World War II and its aftermath and the Korean War.

To understand the nature of the price rise in 1956, it is necessary to review briefly the trends of business in that year. In the fourth quarter of 1956, gross national product reached an annual rate of \$424 billion. The increase in 1956 was $5\frac{1}{2}$ per cent, of which half was attributable to the rise in prices. Table I shows the changes in GNP and its main components in 1956 and since the first quarter of 1955.

TABLE I
CHANGES IN MAJOR COMPONENTS OF GROSS NATIONAL PRODUCT
Selected Periods, 1955 and 1956

				Per Cent Change to Fourth Quarter of 1956 from:	
	First Quarter of 1955	Fourth Quarter of 1955	Fourth Quarter of 1956	First Quarter of 1955	Fourth Quarter of 1955
	(billions of dollars)				
Gross National Product	\$377.3	\$401.9	\$424.0	+ 12.4	+ 5.5
Personal Consumption					
Expenditures	246.7	259.5	271.2	+ 9.9	+ 4.5
Durable Goods	34.7	35.4	34.9	+ 0.6	- 1.4
Nondurable Goods	122.5	129.2	134.8	+ 10.0	+ 4.3
Services	89.5	94.9	101.5	+ 11.3	+ 7.0
Gross Private Domestic					
Investment	54.7	65.1	68.4	+ 25.0	+ 5.1
New Construction	31.5	33.0	32.9	+ 4.4	- 0.3
Producers Durable					
Equipment	21.3	25.9	31.5	+ 47.9	+ 21.6
Net Changes in Busi- ness Inventories	1.9	6.1	4.0	+ 110.5	- 34.4
Net Foreign Investment	- .4	- .8	2.4
Government Purchases of					
Goods and Services	76.3	78.1	82.0	+ 7.5	+ 5.0
Federal	46.8	47.2	48.3	+ 3.2	+ 2.3
National Security	41.8	40.6	43.2	+ 3.3	+ 6.4
State and Local	29.5	30.9	33.7	+ 14.2	+ 9.1

Source: *Economic Report of the President*, January 1957, p. 123.

In 1956 there were many crosscurrents despite the rise in total economic activity. Thus, for example:

Automobile production decreased 27 per cent, while production of new plant and equipment increased 22.3 per cent.

Private residential building declined 7.8 per cent, while private nonresidential building rose 10.7 per cent.

roduction of farm machinery decreased 5.5 per cent, while output of industrial and commercial machinery increased 15.6 per cent.

The steel industry operated close to capacity except for the strike period while textiles operated below capacity.

These diverse trends are reflected in the pattern of price changes. Table 2 shows clearly that the largest price rises since mid-1955 have occurred in the areas of the economy in which we have been having the greatest boom. Included in this category are prices for metals and metal products, machinery and motive products, and pulp, paper and allied products. Coal prices, which are included in the fuel, power and lighting materials index, also have risen substantially.

TABLE 2
CHANGES IN WHOLESALE PRICE INDEX
June 1955 and March 1956 to March 1957
(1947-49 = 100)

	June 1955	March 1956	March 1957	Per Cent Change to March 1957 from:	
				June 1955	March 1956
Metals and metal products	132.6	146.5	151.0	+ 13.9	+ 3.1
Machinery and motive products	127.1	134.7	144.6	+ 13.8	+ 7.3
Fuel, power and lighting materials	106.8	110.9	119.4	+ 11.8	+ 7.7
Pulp, paper and allied products	118.3	126.8	128.7	+ 8.8	+ 1.5
All commodities other than farm and foods	115.6	121.0	125.4	+ 8.5	+ 3.6
Nonmetallic minerals—structural	123.7	127.9	133.2	+ 7.7	+ 4.1
All commodities	110.3	112.8	116.9	+ 6.0	+ 3.6
Hides, skins, leather and leather products	92.9	97.7	98.3	+ 5.8	+ 0.6
Furniture and other household durables	115.2	118.1	121.8	+ 5.7	+ 3.1
Miscellaneous products	89.1	88.2	92.0	+ 3.3	+ 4.3
Rubber and rubber products	140.3	146.2	144.3	+ 2.9	- 1.3
Tobacco manufactures and bottled beverages	121.6	121.7	124.1	+ 2.1	+ 2.0
Chemicals and allied products	106.8	106.5	108.8	+ 1.9	+ 2.2
Textile products and apparel	95.2	95.9	95.4	+ 0.2	- 0.5
Processed foods	103.9	99.2	103.7	- 0.2	+ 4.5
Lumber and wood products	123.7	128.0	120.1	- 2.9	- 6.2
Farm products	91.8	86.6	88.8	- 3.3	+ 2.5

Source: U. S. Department of Labor, Bureau of Labor Statistics.

Prices have declined or shown little changes for lumber and wood products, textile products and apparel, and rubber. The decline in residential building and in automobile production accounted for several of these price declines while the relative doldrums in the textile products and apparel industries help explain the others.

It should also be noted that prices of tobacco manufactures, bottled beverages, and chemicals and allied products also have recorded only nominal changes during this period of price rise. These are industries in which labor costs account for relatively small proportions of the sales dollar.

The upward movement of the wholesale price index from mid-1955 to the end of 1956 was interrupted from April to July 1956. During that period the all-commodities index was stabilized around 114.0 (1947-49 = 100) and the industrial price index fluctuated around 121.5. These indexes have again been stabilized since the end of 1956 or for a period of about four months. This recent stability by itself is no assurance that the price rise will not be resumed in the immediate future. On the other hand, there is no reason why the experience of last summer and fall need be repeated. It is because of this background that it is particularly important to examine the nature of the pressures at work in our economy over the next year as we attempt to evaluate the outlook for price inflation.

I shall confine myself to the factors affecting the business outlook. However, I should like to make one general observation concerning the wage area. The term "wage inflation" would seem to be significant primarily as a description of the relationship between changes in total labor costs, which include wages as well as fringes, and changes in output per man-hour. When total labor costs rise more than productivity, unit labor costs increase and there tends to be pressure for price rise. However, it does not follow that all unit labor cost increases must be or will be accompanied by higher prices. Selling prices are determined by many factors of which labor costs are only one. Rising unit labor costs are passed on to the buyer most easily in industries which experience high-level demand for their products. Under con-

ditions of decreasing demand, this wage inflation may be reflected in unemployment of resources rather than in higher prices.

I should like to turn now to a consideration of the main forces which will affect the business outlook. I have found that it is useful to know where you are before you try to determine where you are going, so I shall review briefly where we are in the business cycle and then consider the major forces under three headings: expanding, neutral, and contracting.

I am more concerned with giving you the raw materials out of which a forecast may be made than with the forecast itself. However, I shall weigh these factors and offer my conclusions as to what they suggest.

WHERE WE ARE

The boom has been grinding to a halt in the past few months. The rising trend of 1956 has given way to a broad sidewise movement. For example, the Federal Reserve Board index of industrial production was 144 (1947-49 = 100) in December 1955, 146 in October 1956, 147 in December, and 146 in March 1957. The expansion in new plant and equipment appears to be losing its momentum. Automobile production and sales have failed to show the vigor earlier anticipated. Residential building continues to be cut back and steel output has been slipping. Inventory accumulation appears to be taking place at a slower rate. Reflecting these underlying pressures, the wholesale price index has recorded little change in the past three months. However, the consumer price index has continued to inch upward, reflecting the earlier rises in wholesale prices and the persistent increase in the prices of services.

Expansionary Forces

The expansionary forces include the following:

1. Government and Armament Spending

In the coming year, it is anticipated that federal, state and local spending will increase between \$5 and \$6 billion. Slightly more than half of this increase will take place in

federal spending largely as a result of the increase in national defense spending. It is estimated that national security expenditures will rise by \$2.3 billion while nondefense, or civilian, spending will increase by \$600 million. The rise in military spending is due to the more complex nature and increased cost of modern equipment.

During the post-war years, state and local spending has been increasing between \$2 and \$2½ billion annually. In light of the large number of new projects approved at the last election and the need for new schools, hospitals, highways and other local capital construction, a continuation of this trend seems assured. In addition, all layers of government have been affected by higher wages and prices which have raised the cost of government significantly. The projected expansion in federal, state and local spending will be one of the most important plus factors through the remainder of 1957. This area accounts for about one fifth of the gross national product.

2. High Disposable Income

Consumers' disposable income has been increasing steadily. The total was at the annual rate of about \$296.0 billion in the first quarter of 1957. Further rises in disposable income seem probable in the months ahead. Under long-term contracts, wage increases of 6 cents to 7 cents an hour are scheduled to take place in a number of important industries including steel, automobiles, railroads, and electrical equipment. In addition, many contracts provide for cost-of-living escalator clauses. At least 3 or 4 cents an hour should be added to wages as a result of rises in the consumer price index. Thus, the outlook is for a wage pattern of 10 cents or more an hour for 1957. These wage increases in the so-called key bargain industries will become the goal for workers in other industries in which contracts are reopened. The increase in total labor income should be somewhat smaller than the rise in wages as a result of the reduction in overtime hours.

In addition, various fringe benefits will be liberalized in the steel industry and other industries. On balance, it appears that hourly labor costs will increase about 5 per cent

this year. Long-term rates of gain in productivity in our economy average only about half as much as the projected increase in labor costs. Should the long-term productivity pattern develop in 1957, unit labor costs would rise further with the consequent pressure for higher prices.

The United States Department of Agriculture is projecting a small increase in farm income for 1957. Dividend incomes should show little change, while interest income will rise further. Since consumer buying is closely related to the level of incomes, expanding disposable income should be accompanied by a further rise in personal consumption expenditures.

Neutral Forces

The more important neutral forces include the following:

1. Plant and Equipment Expenditures

Plant and equipment expenditures were the dynamic force in the 1956 rise in business activity. Total expenditures rose by 22.3 per cent over the preceding year. The estimated increase for 1957 is 6.6 per cent. However, it should be noted that such spending is projected by the Department of Commerce and the SEC at \$37.4 billion for the entire year of 1957, while the estimate for the first half of the year is placed at slightly above that level. Thus, it appears that capital expenditures will show little change from the current level during the rest of the year. As a result, such spending will act as a neutral force.

The factors which are slowing up the expansion in plant and equipment spending include a probable decrease in undistributed corporate profits, narrowing profit margins in many lines of activity, greater difficulty in obtaining outside funds, higher interest rates, a reduction in corporate liquidity, and the substantial increase in capacity already experienced.

2. Residential Construction

Residential construction has declined sharply from the peak annual rate of about 1,400,000 housing starts early in

1955 to a rate of 900,000 early in 1957. Most of the decline had taken place by mid-1956. The decline in new housing starts has been attributed by many persons to the lack of availability of mortgage credit. It is interesting to note, however, that the increase in mortgage debt on one- to four-family houses was more than \$11 billion in 1956, or the second largest increase on record. The tremendous rise in mortgage debt during the post-war years is shown by the following tabulation:

	<i>Mortgage Debt 1- to 4-Family Houses (billions)</i>
1940	\$17.3
1946	23.0
1949	37.6
1950	45.2
1951	51.7
1952	58.5
1953	66.1
1954	75.7
1955	88.1
1956	99.2

I question whether the tightening of the supply of mortgage credit has been the major factor in the decline which has taken place in housing.

A more logical explanation of this decline is found in the temporary overstimulation of housing which followed the enactment of the Housing Act in August of 1954. Lengthening of maturities for mortgages and the decrease in down payments provided in that Act resulted in a sharp upsurge in new building to a level which could not be sustained. Most of the decline from that peak has reflected the elimination of this excessive stimulation. I believe that most if not all of the decline in housing has already been witnessed and that the outlook is for little change from the present levels.

The recent reduction in down payments on federally insured mortgages will not be too significant as a stimulant to new housing. Many lenders undoubtedly will favor loans which are not insured because of the higher interest charge on such loans. Hence, I have included residential building among the neutral factors.

3. *Nonresidential Construction*

In 1956, nonresidential construction rose almost 10 per cent. This increase reflected the boom in new plants, and the boom in shopping centers, churches, highways, and other nonresidential facilities. Part of the increase reflected the rise in prices. Nonresidential construction is now at an annual rate of about \$30 billion. With the leveling off of plant and equipment spending and a subsiding of the boom in shopping centers, it is probable that the total will not change much from the present level, although public construction is expected to set new peaks in 1957.

4. *Automobile Industry*

One of the laggards in the 1956 boom was the automobile industry which settled back from its own boom in 1955. Output in 1956 was estimated at 5.8 million cars. While there was considerable optimism at the beginning of the current model year that output would reach 6.5 to 7 million cars in 1957, the failure of sales to perk up significantly has resulted in a downward revision of these earlier estimates to 6.0 to 6.3 million cars, or only slightly higher than in 1956.

In the second half of 1956, consumers spent about 5 per cent of their disposable income for automobiles. This is about in line with the normal relationship and far below the 6.4 per cent ratio which developed during the boom of 1955. The Federal Reserve Board's Survey of Consumer Finance shows that, for 1957, "The proportion of spending units reporting that they would or might buy new or used automobiles during the year was unchanged."¹ Depending upon one's predilections, the automobile industry could be listed either as a moderately expanding force or as a neutral force. I am inclined to classify the industry as "neutral plus".

5. *Backlog of Orders*

As of February, the volume of unfilled orders on the books of American industry was \$62 billion or a rise of almost \$6 billion as compared with a year earlier. Most of these orders are for durable goods. Although the total has been reduced

¹ *Federal Reserve Bulletin*, March 1957, p. 258.

fractionally since December, the backlog is equivalent to about four months of production. This large volume of unfilled orders assures high-level activity in this very volatile area of our economy in the months ahead.

6. *Farm Outlook*

Farm income rose about 5 per cent in 1956. This was the first gain in farm income since 1951. As a result of the soil bank program, and other programs instituted by the federal government, a further small rise in farm incomes is anticipated by the U. S. Department of Agriculture for 1957. Farmers are expected to plant a smaller acreage this year than at any time over the past forty years. If these intentions actually are realized and if productivity does not advance markedly, there is the likelihood of some reduction in the agricultural surplus. However, this reduction may not materialize because of changes in plans, the withdrawal of inferior acreage from cultivation, increased average yields, and similar factors.

Negative Factors

The more important factors pointing to a lower level of economic activity include the following:

1. *Credit Controls and Tight Money*

The tremendous demand for capital has outstripped the available supply of savings. As a result, there has been considerable pressure for higher interest rates. Both short-term and long-term interest rates have risen. The result has been widely discussed in the press as tight money. Actually, tight money may take one of two forms. It may refer to the availability of credit or it may refer to the price of credit. Money has been tight in the sense that it has cost more to borrow and in the sense that there has not been enough available to meet the sharply increased demands for credit.

Nevertheless, the total credit expansion in 1956 was of major magnitude despite the concern with tight money. I have already noted that mortgages on one- to four-family houses increased by \$11.1 billion in 1956. During that year, consumer credit rose by \$3.2 billion and business loans of

commercial banks increased by \$8.6 billion. In addition, corporations sold \$7.9 billion in bonds and notes. Total private debt increased \$35 billion in 1956.

While the increases were somewhat smaller than in 1955, they still were of major magnitude by any historical standard. It was in response to these pressures that the Federal Reserve Board raised the discount rate. It would be a misinterpretation of cause and effect to place the responsibility for the higher cost of money upon the Federal Reserve System.

The rise in money rates undoubtedly helped to slow up the increase in outstanding debt by cutting off some marginal borrowers. To the extent that the rate of increase in debt is reduced, one of the important forces which has been stimulating the boom will be weakened.

2. *Steel Industry*

In recent months the level of steel activity has been declining moderately. After the 1956 steel strike, there was an overstimulation of demand to replace inventories. Steel output returned to capacity levels for several months. This was a temporary situation which lasted through the early part of 1957. With the rebuilding of inventories completed, it was to be anticipated that the level of activity in the industry would decline.

One of the most sensitive indicators in our economy is the price of steel scrap. It is usually a good forecaster of the trend of steel output. Since January there has been a sharp drop in steel scrap prices which currently are at the lowest level since the summer of 1955. For some grades of scrap, the decline in price has been one third or more. These developments suggest that a further decline in steel output will take place.

3. *Inventories*

Inventories have steadily risen since January 1955. The total has increased from \$76.9 billion to \$88.9 billion in February 1957. Over the past year inventories increased almost \$6 billion; this rise in part reflected higher prices. The rate of increase of inventories has been smaller during the past

few months and this development has contributed to the slowing up of the boom. Despite the likelihood of some price increases in the next few months, business men have not been eager to build up inventories further.

THE OUTLOOK

This list of expanding, neutral and negative forces involves some duplication. However, I have found it a useful approach in the past because it indicates where the pressures may be developing. An examination of the forces outlined suggests no major change in the economic picture in the months ahead. Rather, a broad sidewise movement has developed and the probability is that it will continue to characterize the business scene through most of 1957.

If the business picture is analyzed in terms of the gross-national-product framework, a similar conclusion emerges. As was noted earlier, in the balance of 1957 we will experience an expansion in government spending and in personal consumption expenditures. On the other hand, some decrease in gross private domestic investments seems probable largely as a result of the shift in the rate of inventory accumulation. On balance, it does not seem probable that the over-all physical volume of activity will change significantly from the level now prevailing. Thus, on this basis, too, a broad sidewise movement is suggested.

If my analysis of the forces at work in the months ahead is correct, then the pressure for inflationary price rises can be expected to continue to subside. Increases in new plant capacity will act as a barrier to spiraling prices in some sectors of the economy, while declining volume will make it more difficult to pass on all cost increases in other areas. We appear to be in a period when the inability to pass on all cost increases by raising prices will result in a squeeze on profits.

REMARKS BY THE CHAIRMAN

CHAIRMAN STIGLER: Thank you, very much, Professor Backman! I am especially grateful that you have not predicted a large rise or fall in business activity which would have sent us all to our brokers before we completed the program.

The question of the federal budget is one that has been dwelling in the headlines now for some months, and indeed for some years. One gets the feeling that the federal budget, like the federal debt, has joined the class of objects which can be admired or denounced, but not tampered with. I recall once when one of my friends was asked, "What shall we do about the national debt?" he replied, "The same thing as you do about the Rocky Mountains."

The question of whether the federal budget is out of control, and whether it is capable of being reduced on any substantial level is a difficult one. We are fortunate in having for our last speaker today a man who surely is as able to discuss this in an informed way as anyone in the country. Mr. Magill has been a former Under Secretary of the Treasury, and so knows this picture from the inside. He has also been long a distinguished student and writer in the field of federal tax law. I take very great pleasure in introducing Mr. Roswell Magill.

CAN THE FEDERAL BUDGET BE REDUCED?

ROSWELL MAGILL

Partner, Cravath, Swaine and Moore
President, The Tax Foundation

Member, Board of Directors, Academy of Political Science

THE proposed \$72 billion federal budget for 1958 has provoked a storm of citizen interest. Citizens have begun to appreciate that so long as the federal budget remains high, there is no real chance of federal tax reduction.

We have painfully learned in our individual experiences during the past ten years that unbalanced budgets mean not only additions to the enormous federal debt but also inflation and a dollar gradually diminishing in value. Time was when a penny would buy a newspaper. Now pennies have little use save for sales taxes. Time was when a nickel would buy a subway ride. Now three nickels are required. Now a dime buys the afternoon paper that pennies used to provide. We do not want to produce the time when a dollar bill will be required for that purpose.

There is some evidence that the sheer size of the federal budget has appalled a good many citizens. Moreover, many of us are troubled to recall that, after the 1952 campaign with its promises of a reduced budget and a smaller federal government, the budget really was reduced \$10 billion in the course of two successive years; but that in the next three years it has grown \$9 billion (including the new highway program); so we are back where we started. Nor is the growth solely in defense items. Defense expenditures are budgeted to increase \$2.7 billion, less than a third of the total rise; other expenditures have increased \$6.3 billion, more than twice as much.

Many taxpayers have taken pens in hand (better still, some have used pencils) to write to their Congressmen that they do not like the budget, and want it reduced. Congress has begun to respond to the demands of constituents. At

the same time, however, some leaders express doubts whether citizens are really prepared to take less from the United States as the price of paying less in taxes. Is the economy drive really well grounded, not merely in the grass roots, but in the facts of present-day American life?

The fact that the current outcry from citizens is aimed at the proposed federal budget may have obscured the source of the protest. Some people may in fact feel that the federal government already is too large and is spending too much; others may be convinced that loose federal spending at a time like this can only add to inflationary pressures. Essentially, however, the current protest is a protest against *high taxes*. Too many people are paying too much in taxes, not only at the federal but also at the state and local levels. They had hoped, after the campaign promises of last year, that there would be a substantial tax reduction, at least in federal taxes, this year.

The proposed budget for fiscal 1958 washed out those hopes for tax cuts. That is why the people protested, and are continuing to do so. That is why these protests have forced the House of Representatives to make substantial reductions in appropriations bills to date. Americans this year are merely exercising the age-old right of civilized people to complain about taxes in the interest of reducing the burden.

Looked at in this light, the current protest does not answer a more fundamental problem involving our entire philosophy of government. Practically, are citizens really prepared to give up some school aid, some farm parity, some foreign aid, in the interest of a smaller expenditure total and thus lower taxes?

Philosophically, are we now so large a country, with so many people, so much national income, and such world-wide responsibilities, that we must support a vastly expensive federal government? On this basis, for example, one commentator, an official under a prior administration, criticizes the currently proposed budget as being much too small. Senator Byrd says the budget is much too high and should be cut \$5 billion. Who is right?

What are the facts? The calm and dispassionate atmos-

phere of an Academy of Political Science meeting ought to be a good spot in which to make the endeavor to separate out a few of the principal threads in a very complicated and tangled web. We cannot hope to learn in a few minutes what Senator Byrd, and the Chairman of the Council of Economic Advisers, and Director of the Bureau of the Budget have learned in several lifetimes of study. But we can hope to become moderately well-informed citizens, better able to judge intelligently some of the major issues here involved.

I

First, what is the budget? Who makes it? Who is responsible for it?

The current budget, a volume of 1,249 pages, is the federal program of expenditures for the fiscal year July 1, 1957 to June 30, 1958; and the official estimate of cash receipts, mostly from taxes, for the same fiscal period. It is prepared by the Bureau of the Budget, an agency in the Executive Branch of the government, headed by a director.

President Eisenhower stated in his budget message for 1957: "A budget is not just a book of figures describing fiscal operations—it is a comprehensive plan of action for meeting our national objectives. As such, it affects every phase of the life and activity of the Nation."

Fundamentally, the budget is a cumulative list of all the items of anticipated expenditures for the fiscal year for all the innumerable government departments, bureaus and agencies. Some of these items have already been authorized by Congress in past years. Some are logical developments of what has been authorized. Some require new authorization.

In a nutshell, the budget for fiscal 1958, which so many taxpayers are protesting, calls for expenditures of \$72 billion in the year beginning July 1. Nearly two thirds will go for what is called "national security" spending, and the rest for all other programs.

Even if Congress wants to cut a few billion out of proposed spending, it will have a hard time doing so. The trouble is, Congress deals primarily with *appropriations*, not *expendi-*

tures. As part of his budget planning, the President has requested Congress to pass some \$73 billion in appropriations this year.

Even if Congress refused to pass a single dollar of this \$73 billion, the President would still have available for spending some \$70 billion from appropriations and authorizations by prior Congresses. And if Congress does give the President all the appropriations he now asks for, he will have *available* for expenditure on July 1, not the \$72 billion he says he plans to spend, but a fabulous total of about \$140 billion.

Actually, so far as spending for fiscal 1958 is concerned, about the only way Congress could be sure to cut expenditures would be to pass a measure putting a ceiling on spending for the year. That is why there has been considerable support for proposals such as the one by Representative John Ray of New York, H. Res. 170, which would in effect try to put an arbitrary ceiling of \$65 billion on spending for fiscal 1958.

II

All this does not mean that Congress is wasting its time trying to cut appropriations bills. On the contrary, sizable appropriations cuts can influence spending not only in fiscal 1958 but in later years as well. By cutting down the amount of carry-overs, Congress can increase its control over future budgets.

That is the significance of proposals by Senator Byrd and others to make major cuts in appropriations this year. Senator Byrd has said *expenditures* for fiscal 1958 should be cut by at least \$5 billion. To help reach that objective, he proposes that appropriations be cut by \$6.5 billion. Although he does not plan to release the details of his appropriations cuts until the Senate is dealing with each of the appropriations bills, he has outlined the main areas where he thinks these cuts can be made.

He would cut national security appropriations by \$1.5 billion, a reduction of less than 5 per cent aimed at eliminating waste without curtailing essential defense spending. Pre-

sumably he would include as waste any big-game hunting parties in the wilds of Alaska by Air Force brass.

He would cut \$2 billion more by maintaining military assistance to foreign countries at the 1957 level (a saving of \$.5 billion), and by reducing economic assistance by \$1.5 billion.

He would cut \$3 billion from domestic-civilian activities, which have risen 36 per cent since 1954. Right here we have the critical test of the American philosophy of government, to which I referred previously. Few people seem to realize that the vaunted \$10 billion cut in federal spending achieved by the present Administration in its first two years in office was due primarily to lighter military demands after the end of the Korean War.

On the other hand, nondefense spending, after a sharp drop of about \$3 billion between fiscal 1953 and 1954, has increased steadily ever since, passing the previous Truman peak in the present year and reaching a new peacetime record in the proposed budget for fiscal 1958.

In my view, these proposals by Senator Byrd by no means hobble the federal government's activities, whether for defense or for civilian purposes. Mainly the line of demarcation seems to be between a federal government which spends freely on all sorts of not very essential projects, and one which is reasonably careful about its expenditures. That the proposed cuts as a whole do not introduce an era of austerity is sufficiently shown by the fact that if all the cuts were made, the budget would be reduced much less than 10 per cent. It is likely that in fact the cuts will be more nearly 5 per cent than 10 per cent. Even such relatively moderate reductions are producing howls of anguish from the particular bureau chiefs affected—chiefs who would not be able to expand their services as they hoped. Nevertheless, it is quite clear that, even after the cuts, the government at Washington will go on.

The really important result of the relatively slight shrinking of proposed federal activities will be a corresponding opportunity to shrink federal taxes a little, and even to shrink the massive federal debt a little. We citizens would

really enjoy a chance to spend for ourselves more of the money we earn.

III

Fundamentally, in what philosophy of government do we citizens believe? Do we really want to spend our own money, or do we really prefer to have the government spend for us? Are we satisfied to restrict the activities of the federal government largely to those matters like national defense which only the federal government can do well? Are we satisfied to leave to the states and municipalities the execution of historically local functions, like schools and local highways, which the localities can finance and execute, perhaps more slowly, but in the long run, with better supervision and attention to local needs than a distant national government? Incidentally, we should not throw away the great advantages that flow from many local experiments in different forms of management of public affairs—advantages that are notably absent from the centralized administration of a monolithic state.

In presenting his budget three years ago, the President said: "This budget marks the beginning of a movement to shift to state and local governments and to private enterprise Federal activities which can be more appropriately and more efficiently carried on in that way."

That philosophy seems to me sound, and I should like to return to it. The 1958 budget was evidently drawn on a different basis.

The fact that we are a big country with a rapidly growing population and an enormous national income does not really justify the 1958 budget. If we spend up to the limit of our tax resources now, and that is what we are doing, where shall we turn if an emergency makes even heavier outlays necessary?

There is every indication that unless Congress makes heroic efforts to cut the budget, the final spending total for fiscal 1958 will be even higher than the President indicated in his January budget. We need only look at the last couple of years to see the possibilities. The 1956 budget rose more

than \$4 billion between the time the President first proposed it and the end of the fiscal year; the 1957 budget is expected to rise at least \$3 billion in the same period. If it had not been for an even greater increase in budget receipts, the surpluses of the past two years would have been substantial deficits.

If inflationary pressures continue as at present, fiscal 1958 spending is virtually certain to be considerably higher than the \$72 billion planned in the President's budget. And I wish I was as sure as some that the precarious surplus in the present budget will in fact be brought about by a continuing rise in budget receipts, reflecting a prosperity that is still booming lustily. Are we really as sure as that of endless good times?

Moreover, if we try to project this kind of budget with its huge "obligational authority" to future years, the outlook is gloomy indeed. A new analysis of the budget by the Tax Foundation shows that there are no less than forty-two new or expanded programs proposed for fiscal 1958. Twenty-four are new, in the sense that they require new authorizations or have never yet been appropriated for, and the other eighteen are expanded.

Besides the well-known ones, such as federal aid for school construction, the list includes such things as: a new series of loans and grants to state and local governments for development of *small* reclamation projects; grants to states to meet personnel and administrative costs of state and local civil-defense organizations; new borrowing power for college housing loans; new benefits for veterans; grants to states for construction of training facilities for medical and dental schools; grants to states for training of public welfare personnel; grants and loans for areas with persistent unemployment; grants to states to assist in *tree* planting at a cost of \$4 million. There are many others, but these are fair samples.

So far as future spending is concerned, it is extremely significant that these forty-two programs, involving *appropriations* of nearly \$9 billion in the 1958 budget, call for *expenditures* of less than \$2 billion in fiscal 1958. The rest would go to make future budgets big.

Our practice is to permit these programs to start small and grow big. An excellent example came to light recently. The item in question was an appropriation of \$150,000 entitled "Salaries and Expenses, President's Committee on Education Beyond High School". The Committee received this appropriation some time ago and was supposed to make a report by December 31, 1957. In the current budget, there are two more items, one for \$650,000 for grants and subsidies and another for \$300,000 to enable the Committee to complete its report. The pay-off, however, is a third item in the same budget requesting \$2.5 million "further to assist in developing programs to implement recommendations of the Committee." Thus, in two years, a little old \$150,000 item to enable the Committee to make a report has grown to a \$3 million appropriation for a grants and subsidy program to "implement" a report and recommendations that *the Committee has not yet made*.

However shocking these governmental practices may be to the taxpayers, taxpayers must recognize that the practical effect is to assure big budgets for years to come. Unless Congress and the Administration take a strong stand now, the budget for fiscal 1959 may well approach \$80 billion. If the budget is anywhere near that total, we may as well forget the possibility of any of the substantial tax cuts that the politicians talk about but that public officials like to forget.

IV

Nevertheless, the outlook is not hopeless, nor is the battle lost. There are some good signs too. One of the best is the renewed interest of Congress as well as of the people in the problem of controlling expenditures. Right now, there are dozens of bills attempting to deal with problems of "carry-overs", of appropriations procedures, of poor staffing for appropriations committees. I shall mention a few.

Legislation calling for a single-package "appropriation-expenditure" control bill has been introduced by the indefatigable Senator Byrd. This proposal seeks to give Congress actual control over annual expenditures from both new and prior appropriations. In addition to consolidating all regu-

lar appropriations in a single bill, this measure provides that each bill must be accompanied by a Congressional report itemizing all appropriations and expenditures. Such legislation will limit total authorized spending for the year. A "current estimate" of revenue for the ensuing year is also called for, so that the Congress may know whether its actions will result in a balanced budget or a debt increase.

The Senate has already approved a measure introduced by Senator McClellan of Arkansas and co-sponsored by seventy-one Senators which provides for the establishment of a Joint Committee on the Budget. This committee would facilitate Congressional analysis and evaluation of spending proposals and seems likely to strengthen Congressional budgetary procedures greatly.

Senators Kennedy and Byrd and forty-five others are the sponsors of a bill calling for the statement of appropriations on an annual accrued-expenditure basis, a recommendation of the Hoover Commission. Under this legislation, Congress would appropriate for each fiscal year on the basis of estimates of expenditures actually to be made or accrued in that year.

It is clear from what I have said that the problem of the federal budget is not a unique problem that arises this year. The bitter recriminations raging around the "battle of the budget" cannot possibly be settled this year.

The fundamental question is, "What do we want government to do for us?" Congress and citizens have to reach a judgment on that question every year. All the discussion and letter-writing about federal spending will have a salutary effect if it helps pin-point the principle at issue: the relationship between the federal government and the states, the localities and the individual.

This brief budgetary review makes it painfully evident that the first steps can and should be taken this year toward remedying the fearful lack of expenditure control manifest in Congressional treatment of money bills. Surely, among the Byrd, the McClellan and the other proposals I have mentioned, Congress can find a way to end the present dismal lack of control over spending.

Whatever may happen to the budget now being dealt with by Congress—and I heartily hope it will be cut substantially—the probability of future budgets just as difficult to deal with makes it imperative that Congress improve its procedures. The path to eventual tax reduction must certainly first pass the milestone of Congressional spending control. Members of Congress need to know, when they vote for appropriations, how much that vote will mean in terms of budget expenditures, national debt, and possible tax reduction. Citizens have a prime responsibility to help Congress achieve this control over their tax dollars.

DISCUSSION: INFLATION AND GOVERNMENT POLICIES

CHAIRMAN STIGLER: Thank you, very much, Mr. Magill!

Mr. Magill was not only coöperative in being very brief as well as interesting, but also in bringing us a picture calculated to reduce one's hunger somewhat.

I believe we still have a little time left to throw the discussion open to the members of the Academy on the floor. Will any of you who wish to raise questions or to make brief comments on issues which have been touched upon in this wide-ranging program, please first identify yourself?

MR. ABBA LERNER [Roosevelt College, Chicago]: I would like to ask the first two speakers for an estimate of how much unemployment would have to be maintained in order to prevent wages rising more than over-all productivity.

CHAIRMAN STIGLER: Would either of the first two speakers, Mr. Wright or Dr. Schmidt, like to comment?

MR. WRIGHT: I don't myself like to think in those terms. I think it would be better to ask, at what level of public spirit and appreciation of national needs do labor and other pressure groups have to be kept in order to have full employment?

CHAIRMAN STIGLER: Would other speakers wish to comment?

DR. SCHMIDT: I would expect it would have to be—and this is a gross generalization and perhaps invalid—somewhere about 5 per cent. I suppose 6 or 7 per cent might be correct. But even then, with powerful unions you get individual wage increases that would far exceed productivity in particular sectors.

PROFESSOR BACKMAN: I think if we look at the experience in 1949 when there was no general wage increase, although pensions were started, and we had about 5 per cent or $5\frac{1}{2}$ per cent, and if we look at 1954 when there was a smaller amount of unemployment than 1949, and the general level of wage increases was kept about in line with long-term gains in productivity, we might have some indication, though I recognize that the specific repetition of events in those years may not occur. Yet it is a fact that those are the only two post-war years when a wage increase of 10 cents or more per hour did not prevail.

MR. EDMUND WILSON: I would like to ask Dr. Backman to explain in very simple terms what the gross national product is, and how government spending contributes anything to that product. I am very confused about it.

PROFESSOR BACKMAN: The United States Department of Commerce takes a document almost an inch thick to explain it, so you will realize that anything I say is going to be very much abbreviated.

The gross national product is an attempt to measure in dollar terms the value of all goods and services produced. You wear a shirt. All we count in our gross national product is the resale price of that shirt, not the separate operations of growing cotton or converting that into yarn, and the yarn into goods, the goods into fabric, etc. We just count the end product. Now, in the calculation of gross national product, an estimate is made of the contribution in the final goods by the federal government and the local and state governments. That today amounts to something like about one fifth of the total.

For example, we would find the gross national product figures showing the contribution of the federal government in 1956 as being \$47 billion, even though we know the federal government spending is in the neighborhood of \$70 billion. And that difference represents the elimination of duplication. So that if we want a measure of the total level of economic activity, and of government in the process of rendering various services—which may range from the community service of taking care of education, health, fire protection and police protection, to the federal government taking care of national security protection—we must count those in as well as we count in these shirts.

The question may be raised, if the government spends it and we pay more in taxes, how does that add to the total? The answer is that what the government collects in taxes and spends is subtracted from what you and I as consumers spend. As Mr. Magill indicated, the government spends it, and if the government spends it, he does not. I might add, too, that I don't spend it. If the government wants to leave in my hands the money it now collects from me in taxes and is afraid that the economy will lose some of its steam because it isn't spending the money, I am prepared to make a public pledge that I will spend it and thus keep the economy sustained.

CHAIRMAN STIGLER: Are there any other comments, or questions? If not, this meeting is adjourned.

PART II

TRENDS IN OUR FOREIGN POLICY

INTRODUCTION

ARTHUR W. MACMAHON, *Presiding*

Eaton Professor of Public Administration, Columbia University

MEMBERS and Guests of the Academy: The Afternoon Session will come to order.

As we move from the emphasis this morning, on domestic, to the emphasis this afternoon on international aspects and policy, a good deal of a continuum of interacting conditions, consequences and choices runs through these two bodies of discussion. Certainly it would be hard to find three topics more timely on the international side than colonialism, the world's oil supply, and the future of atomic energy.

Time presses for a discussion of these questions, and I hasten to introduce our first contributor this afternoon, William Henderson, attached to the Staff of the Council on Foreign Relations as Director of Meetings, and Southeast Affairs expert. He is the author of a book on *New Nations of Southeast Asia*, among other works. His contribution in our direct presentation will be a paper on "United States Policy and Colonialism". I take pleasure in introducing William Henderson.

UNITED STATES POLICY AND COLONIALISM

WILLIAM HENDERSON

Director of Meetings, Council on Foreign Relations, Inc.

THE issue of colonialism has been one of the most perplexing problems which the United States has had to face in the post-war period. On the whole we seem not to have handled it very well. Our relations with the newly emerging nations of the non-Western world are for the most part far from satisfactory, and the attitudes of their peoples toward the United States are characterized, not by friendliness or a sense of partnership, but rather by deep-seated feelings of resentment and suspicion. Few indeed would any longer acknowledge us the champions of anti-colonialism. However fantastic the charge may seem, we are today more often counted among the imperialists, and looked upon as a threat to liberties but lately won after long and costly struggle.

There is a wry and tragic irony to this. Americans are, after all, the children of revolution. Opposition to colonial rule, and sympathy for the oppressed and downtrodden of all nations, have been among our proudest traditions. In the past they earned us the respect and admiration of the non-Western world. It is true that our actions usually spoke much more quietly than our words, if indeed they spoke at all, but few questioned our essential sincerity. The palpable difficulties standing in the way of effective action in particular cases were sufficient to rationalize, abroad as well as at home, the yawning gap between emotional response and practical performance.

Since the end of World War II, however, we have been called upon to live up to our ancient promises. The rise of the United States as the richest and most powerful nation on earth, at a time when nationalism had struck deep roots throughout most of the non-Western world and classical colonialism had entered upon an epoch of headlong retreat,

aroused great expectations in the farthest reaches of Asia and Africa. For the most part these expectations have been disappointed. To the non-Western world the United States has often seemed unwilling or unable to project its traditional posture with respect to colonialism, and its concern for the political, social and economic development of dependent peoples, into the realm of practical policy. Our failures, for so they are judged whether rightly or wrongly, have been widely interpreted as pusillanimity or worse. They have given rise to bitterness and contempt, as well as the suspicion that we have lost interest in the advancement of the world's backward and underdeveloped areas.

Many thoughtful observers have urged that the United States should forthwith adopt a position of outspoken and uncompromising opposition to colonialism everywhere on the face of the globe, in an effort to regain lost ground among the emerging nations of Asia and Africa. Even if this were a realistic alternative for United States policy, which it is not, it would go only a small part of the way toward meeting the anti-colonial strictures of the peoples of the non-Western world.

When these peoples speak of "colonialism", they have in mind many different things. The continued domination of the world's remaining dependent territories by a handful of Western countries is perhaps the most obvious. But they refer also to the bitter memories of their colonial past and to the long struggle for independence; to the overwhelming problems inherited from the colonial period of their history, for which they not unnaturally blame the former imperial Powers; to their morbid and for the most part unreasoned fears that these nations, including the United States, may attempt to reassert control over them, by economic if not by political means; to their resentment against what they consider to be the arrogance, highhandedness and race prejudice of the leading Western nations; to their sense of inferiority and frustration in face of the material accomplishments and political maturity of the West. There is no single "policy on colonialism" by which the United States can effectively respond to this generalized sentiment of hostility. It will be assuaged only as time heals the wounds of history, and solid

progress ameliorates the poverty and backwardness of the non-Western world.

This is not to suggest, however, that the United States is powerless in this situation. We can do a great deal to speed up the process of adjustment and reconciliation. On the most superficial level, we should in every possible manner show deference to the sensitive pride of the newly independent nations of Asia and Africa, and give constant public evidence of our respect and esteem for them and for their brothers who are not yet free. One obvious expedient is to support whenever feasible the candidates of non-Western nations, whether neutralist or openly aligned with the United States, for leading positions in the organs of the United Nations and other international bodies. We should strive to persuade these countries, publicly as well as privately and by every available means, of the essential parallelism between their most basic interests and our own, and that we seek neither to subvert their freedom nor selfishly to exploit them in a material sense. We must be interested in their future progress as people, and not merely as pawns in some larger international strategy.

Washington could greatly develop the habit of consultation with the governments of the non-Western world on the whole range of American policies and programs applicable to their respective areas. The exercise might not gain us much in the way of added support, at least at first, but we would be demonstrating our consideration for the opinions of the peoples who are, after all, most directly concerned. The United States should make every effort to comprehend the non-Western point of view, and to concede to it wherever possible. We cannot be expected to applaud neutralism, but we can try to understand it and to develop a more satisfactory response to it than has hitherto characterized our relations with the neutralist nations of the world. Finally, the image of ourselves which we project to these peoples is immensely important. Above all, we must rid ourselves of those qualities of arrogance and prejudice which they resent so deeply.

Perhaps the most effective contribution which the United States can make to the peaceful development of viable mod-

ern states in the non-Western world is through wisely conceived and soundly administered programs of economic and technical assistance. They are in the first place the most important means by which we can influence the political evolution of underdeveloped countries. In a recent book Professors Millikan and Rostow have summarized the ways in which foreign economic aid, by making possible real economic growth, can hasten the development of political maturity.¹ The prospect of significant economic progress provides a constructive outlet for popular energies which are now too often dissipated in keeping alive the torch of an outmoded anti-colonialism. Since it is a goal shared by the whole population, it can become an important force making for unity and cohesion in societies often threatened with complete disintegration. Aid programs, by insisting on balanced economic development, can help to bridge the broad gulf between the city and the countryside by compelling the urban leadership to think about and work with their country cousins more than they have ever done before. Such across-the-board economic development also serves to uncover new sources of leadership, hitherto drawn almost entirely from the urban intellectual élite and cut off from the great masses of the population.

American aid has the distinctly economic objective of laying the economic bases for healthier, happier and more prosperous societies in the non-Western world. While economic conditions are not the only source of instability in these areas, they are certainly one of the most important. The need to raise living standards is all the more pressing since expectations of a better life have been growing rapidly in recent years. In order to improve prevailing economic conditions in the foreseeable future, sustained economic growth at a fairly rapid rate is essential. But the newly emerging nations do not possess the resources in capital, skills and experience necessary to accomplish this purpose on their own. It is here that the United States, through its programs of economic and technical assistance, can make a major contribution to the economic development of these countries.

¹ Max F. Millikan and W. W. Rostow, *A Proposal, Key to an Effective Foreign Policy* (New York, 1957), chs. 3-4.

Finally and perhaps most important of all, the elaboration and implementation of programs for significant economic development, which could be made possible by American aid, would have a profound effect in generating a sense of purpose and direction within these countries. Economic development does not necessarily insure an orderly political evolution, at least in the short run. On the contrary, its most immediate consequence may often be a striking increase in unrest and instability because of the variety of sudden shocks and changes which it engenders throughout the whole structure of society. But this is a risk worth taking if at the same time there emerges a feeling of confidence in coping with pressing problems, faith in the future, and a sense of meaningful progress in a democratically oriented society. It is this sentiment, even more than the fact of quantitative economic growth, that the United States should seek to stimulate.

The proper conditions of eligibility for American economic and technical assistance may be derived from the long-range policy objectives we are aiming at. Our basic interest is to encourage the development of these countries as independent, progressive and democratically oriented states. It is not, or should not be, to purchase or compel their alignment in the cold war on the side of the United States. Insistence on onerous political conditions will often cause our aid to be rejected by nations which have opted for a neutralist posture in world affairs. The only conditions which should be imposed are criteria relating to productive use of the aid. Even the acceptance of aid from the Communist-bloc countries should not be considered a disqualification for further American help unless the volume or circumstances of such aid seriously threaten the independence of the recipient.

Undoubtedly the aspect of colonialism which most deeply engages the emotions of the non-Western world today is the continuance of Western colonial rule over a large portion of the earth's surface, especially in Africa. Whether or not they themselves have won freedom, these peoples profess to see little if any justification for the perpetuation of Western domination, at least in its present forms, even in the most

backward areas. Being less familiar with Communist imperialism and the Soviet empire in Eastern Europe, they are less concerned by them. But Western rule, which is to say the domination of the white man, over dependent territories of the non-Western world is intolerable.

For a variety of reasons the United States has been unwilling during the past decade to adopt an intransigent position in opposition to Western colonial rule. In the first place, many of the world's remaining dependent territories are clearly not prepared for independence. A more or less protracted period of tutelage in such areas as West New Guinea and Portuguese Angola is an unavoidable necessity until the political, social and economic bases of freedom have been firmly and securely established. In some colonial territories premature independence would almost certainly create more problems than it solved, and might lead to a resort to radical solutions as a way out of the morass, and ultimately to a Communist seizure of power. British Guiana has recently afforded an instructive lesson in this respect. In Southeast Asia the great commercial entrepôt and military bastion of Singapore is another.

In many instances, moreover, the administering Powers deserve real credit for the manner in which they have discharged their responsibilities toward their dependent territories. Great Britain's post-war record is particularly noteworthy, and should not be forgotten despite such episodes as Cyprus and Suez. The United States has an important stake in the raw materials of various dependent territories, such as the uranium of the Belgian Congo, and in the strategic location of others. These interests might be jeopardized by the sudden end of colonial rule. We are a colonial Power ourselves, and thus far Washington has shown little disposition to surrender our hold on such territories as the Ryukyus and the former Japanese-mandated islands of the Western Pacific.

But most of all, an outspoken anti-colonial posture would place an intolerable strain on our relations with our oldest and most valued allies, especially Great Britain and France. There are limits beyond which these nations will not go in order to preserve unity with the United States when they consider their vital interests to be at stake. Suez, which was

not a clear-cut colonial issue, demonstrated this with tragic clarity. We cannot irrevocably antagonize the colonial Powers with respect to their dependent territories, and then expect them to coöperate with us on the exposed fronts of the cold war. This is not the place to argue the importance of these European nations to the United States as against the benefits to be harvested among the peoples of the non-Western world by adoption of an outspoken anti-colonial position. Suffice to say that an irreparable break with our traditional allies is unthinkable, as much for spiritual as for practical reasons; and further that the sympathy we should gain among the newly emerging nations, while it would certainly improve our immediate relations with them, would probably not fundamentally affect their present international orientation or their deep-seated hostility to the West. On the whole we should have made a bad bargain.

The basic dilemma for the United States has been to find a position with respect to dependent territories which satisfies both the European colonial Powers and the emerging nations of the non-Western world, which at the same time takes into account in a responsible manner the needs and aspirations of the dependent peoples themselves, and finally which safeguards our own important stake in many of the dependent territories. The search has proved a frustrating business.

On paper the United States still adheres to its traditional anti-colonialism, and the political air is often set to ringing with proud assertions of our bias in this respect. Thus President Eisenhower on November 14, 1956, declared that "we simply insist upon the right of all people to be free to live under governments of their own choosing."² At the same time we recognize that the attainment of self-government or independence should be preceded by the establishment of institutional bases capable of sustaining freedom. As Thurston B. Morton, then Assistant Secretary of State for Congressional Affairs, wrote on June 20, 1955:

... the question of timing in the transition from colonialism to self-government or independence is of the utmost importance and delicacy. At a time when international commu-

² *New York Times*, November 15, 1956.

nism is trying to take over all weak governments, we have to be sure that the transition . . . takes place under such circumstances that truly free institutions will be maintained.³

In the daily conduct of affairs, however, the United States has been much less forthright than this general policy position would suggest, and, one might say, a good deal more equivocal. From time to time the United States has exerted considerable pressure, usually in private, on the colonial Powers to hasten the advancement of their dependent peoples. But as particular colonial issues come to the fore, especially in the United Nations, Washington generally does not have a concrete and long-range policy worked out in advance, derived from a coherent set of principles as they relate to the merits of the case at hand, and on which we are prepared to take a public stand. We prefer to climb up on the fence and essay the rôle of middleman between the administering Powers and their anti-colonial critics. In most instances we systematically try to avoid taking positive positions on either side of the question at issue.

This is an understandable posture, and in some respects even a commendable one. We have often stimulated the administering Powers to more rapid accomplishment, and mediated their differences on colonial issues with the emerging nations of the non-Western world. On the other hand, our behavior has failed to satisfy the colonial Powers, which believe that they should have a far greater measure of support in their efforts to come to grips with the undeniably difficult problems of their dependent territories. They resent even the vaguest and most general criticism, and they look upon us as undependable and too soft. Still more important, perhaps, is the fact that we have failed to respond adequately to the prevailing anti-colonial temper of our time. Equivocation with respect to colonial issues has greatly damaged the prestige of the United States at a time when Communist influence is making striking inroads throughout the non-Western world.

³ Letter dated June 20, 1955, from Thruston B. Morton, Assistant Secretary of State for Congressional Affairs, to James P. Richards, Chairman, Committee on Foreign Affairs, House of Representatives, commenting on House Concurrent Resolution 149.

There is no easy way out of our dilemma. It may be argued, however, that the United States should in the near future consider the wisdom of taking several calculated steps away from a colonial policy largely based on the shifting sands of expediency toward a position more nearly in harmony with the essentially sound anti-colonial traditions of our history. From all indications current Communist world strategy aims at bringing about and maintaining a relative relaxation of international tensions for the indefinite future. So far in the post-war period American foreign policy has given the highest priority to safeguarding the security of the United States from Communist ambition, primarily through the strengthening of Western Europe and the construction of a world-wide network of defense alliances. Much has been sacrificed to these ends. Perhaps the time has now come when we can with safety turn greater attention to the non-Western world, and initiate courses of action aimed at replenishing, at least to some extent, our sadly depleted reservoirs of good will among the uncommitted peoples of Asia and Africa.

This is not to suggest that the United States should embark upon a crusade against colonial rule wherever it still persists, or that we should get into the business of stirring up demands for independence. If we can avoid involvement in a given colonial issue without loss of prestige, we would usually be wise to do so, although there may be rare opportunities when deliberate intervention on the side of anti-colonialism would yield rich dividends in the non-Western world at little cost to our relations with the European colonial Powers. In most instances, of course, the United States will necessarily be involved simply because of its own leading position in international affairs.

On such occasions, the United States should, where it is persuaded of the merits of the case and unless compelling circumstances dictate otherwise, openly assert its support for a peaceful solution based ultimately on the freely expressed wishes of the people in the territory concerned. In the final analysis, whether the issue involves Goa, or Togoland, or even Algeria, the peoples of all dependent territories must eventually be given the right to determine their own political future. We should then strive, tactfully but firmly, to

promote this objective by every pacific means at our disposal. We should make clear that we are doing so, and that we shall continue to do so until it has been reached. At the same time the United States should publicly take account of circumstances complicating the orderly evolution of particular dependent territories. Every colony has its own peculiar problems. There is no single formula or timetable. The minority Turkish community cannot be ignored in planning the future of Cyprus, for example, and still less the position of the French in Algeria. In such racially tangled situations, where tensions have reached or passed the breaking point, some kind of accommodation must first be sought among the various resident peoples.

The United States can have an important rôle in the development of adequate political, social and economic foundations in dependent territories by making available large-scale economic and technical assistance, provided that we are satisfied as to the sincerity of purpose of the administering Powers. Where this condition is fulfilled, we should play our part in association with the administering Powers, rather than apart from them, since they are the best guarantee that the evolution of the dependent territories for which they are responsible will proceed in a peaceful and democratic fashion. We should also endeavor to increase the rôle of the United Nations in the solution of outstanding colonial problems, although in concrete instances this will usually be difficult to accomplish, and we should always be careful not to break the back of that organization through the imposition of tasks it will not be able to discharge.

In other words, the touchstone of United States policy on concrete colonial issues should not be immediate freedom regardless of the consequences, but rather meaningful progress toward self-government in accordance with an intelligible time schedule, and ultimate independence where this is the clear choice of the majority. Such a posture would undoubtedly place a strain on our ties with the European colonial Powers. But almost any policy involves certain hazards. The essential reasonableness of this position, together with the fact that for the most part these Powers have themselves subscribed, whether tacitly or explicitly,

to the principle of increased autonomy for their dependent territories, would probably preclude an uncontrollably violent reaction. We must also recognize that the same rules would have to be applied to our own dependencies, regardless of our stake in them; and their implementation in the dependent territories of other colonial Powers involves inevitable risks with respect to important American strategic and other interests.

On the other hand, this approach would by no means satisfy the intemperate demands of the newly emerging nations of the non-Western world. We might even be accused at first of throwing up a smoke screen to facilitate the preservation of European colonialism. But we should at last have gained a firm position on which to stand. We shall not have been apathetic, and we shall have tried hard not to be irresponsible. In the long run the dignity of a consistent, enlightened and reasonable colonial policy would gain us respect, even if it did not win us affection.

REMARKS BY THE CHAIRMAN

CHAIRMAN MACMAHON: Thank you, Dr. Henderson, for this well-balanced paper.

As we look to the next phase of the direct presentation, we suspect that there are connections between colonialism and the aftermath of colonialism, and the topic to be discussed, "Meeting the Oil Needs of the World", which will be opened for us by Dr. Emilio G. Collado, Treasurer of the Standard Oil Company of New Jersey.

Dr. Collado brought to his present work, as professional economist, brief experience once with the United States Treasury Department, with the Federal Reserve Bank of New York City, eight years with the United States Department of State on the economic side, rising to be Director of Financial and Development Affairs, and he was subsequently, for a time, a Director of the International Bank. We are pleased to call upon Dr. Collado.

MEETING THE OIL NEEDS OF THE WORLD

EMILIO G. COLLADO

Treasurer, Standard Oil Company (New Jersey)

FLEXIBILITY is needed in meeting the oil needs of the world. That is the lesson of the last six months. The oil industry was able to supply the world's needs so fully, despite events in the Middle East, only because of the substantial degree of flexibility previously built into the industry in the form of geographic diversity and some excess capacity. The increasing dependence on oil as a source of energy forecast for the future suggests that it will be wise to provide even greater flexibility. Unfortunately, only through increased investment will that be possible, and such increased investment will inevitably impose increased cost for a long time to come.

Before the expropriation of the Suez Canal Company, very large investments were already being made around the world by the oil industry. In the five years ending in 1955, the free world's oil industry spent on capital facilities an average of about \$7 billion a year—even without the inclusion of about \$750 million a year in exploration expenses. This investment had been growing at the rate of 9 per cent per annum in the United States and 10 per cent per annum abroad. Last year it was slightly above \$9 billion.

These large and growing capital expenditures were necessary to meet the rapidly expanding demand for petroleum products. In the five years ending in 1955 the annual rate of growth of consumption in the United States was at the high level of about 5½ per cent. Abroad, it was even higher, about 11 per cent. The growth continued last year. Despite the Suez interruption, consumption in 1956 rose by 14 per cent in Europe. In particular areas abroad the rate of growth was really astounding: for example, 30 per cent in Japan and 24 per cent in West Germany.

The closing of Suez and the interruption of the Iraq Petroleum Company's pipelines in Syria did lead to cutbacks in production in the Middle East, but the actual reductions

in consumption in the consuming areas were far smaller. This appears all the more remarkable when it is realized that in the months preceding the crisis, Europe was drawing about 65 per cent of its oil supplies through the Suez Canal and the I.P.C. pipelines. Nevertheless, in the approximately five months of the complete blockage of the Canal and the I.P.C. pipelines, oil consumption in Europe was only about 8 per cent below the levels generally forecast for that period before the interruption. A mild winter did ease the problems, but it is clear that the petroleum industry had a large measure of success in making use of inventories, in increasing production in other areas, and in rearranging available transportation. Before the Suez blockage Europe's consumption was slightly over three million barrels a day. During the first quarter of this year the industry supplied slightly under three million barrels a day, and of this amount well over half was by emergency procedures. In its report published two weeks ago, the Commerce Committee of the House of Representatives called this performance a "stupendous achievement".

The industry deserves considerable credit for the fact that the immediate economic impact of the disruption of supply turned out to be so modest. I have noted with interest the restrained remarks of the British Chancellor of the Exchequer when he presented his 1957 Economic Survey earlier this month. He said:

The closing of the Suez Canal led within a few weeks to an oil shortage, but the only industry that was seriously affected by this was the motor industry. . . . The oil situation is not making any very great impact on the primary producing countries apart from those in the Middle East. Many commodity prices rose when the Suez Canal was first blocked, but they fell back subsequently. . . . The general effects of the oil shortage in this country have not been as serious as might have been feared, though there has been a rather greater increase in unemployment than is usual at this time of year.

The Chancellor's remarks could be supplemented in various ways. For example, preliminary statistics indicate that the seasonally adjusted index of monthly industrial produc-

tion in the United Kingdom was actually $\frac{2}{3}$ of 1 per cent higher on the average in the first four months after the closing of Suez than in the previous three months. Of course, one can never know to what extent, in the absence of the oil shortage, the British economy might have reached even higher levels over the last few months. Moreover, one should look not just to production figures to learn the effects of the oil shortage. There must also be considered the loss of profits on European investment in Middle East oil production, primarily in Iraq and Kuwait, as well as the immediate balance-of-payments impact, especially on the United Kingdom and France.

My hunch is, however, that the real costs of the Middle Eastern events have only just begun so far as the oil industry is concerned.

The pre-Suez estimates of the future growth in the world's energy requirements were large. In the early part of 1956 the Chase Manhattan Bank estimated that, over the ten years then just beginning, in order to meet the increased demands for oil there would have to be an increase of 32 per cent in United States production and an increase of 115 per cent in free foreign production, that is, production outside of the Soviet and satellite areas. These increases are sizable; yet, to date, most predictions of future oil uses have proved to be conservative.

To meet these projected increases in production over the ten-year period, the Bank predicted the need for capital expenditures of \$115 billion by the oil industry by the end of 1965. This prediction was based on 1955 prices and excluded exploration expenses. The estimate also assumed that almost all the increased supply for Europe would come from the Middle East, where an estimated 70 per cent of the free world's known reserves are located.

The question now is, "What has the Suez experience done to these estimates?" I doubt that the figures for the quantity of future oil consumption have been much affected, but I do suggest that over the next few years the oil companies will be faced with the necessity of making larger investments than the average annual amount of \$11½ billion previously predicted.

Despite the fact that the Western world escaped this time with slight economic injury, it seems clear that the oil companies and the governments of all major oil-consuming countries have taken to heart the security lesson of the experience. A basic amount of production must be in safe areas. Other production should not all be concentrated in one place. There must be alternative sources and alternative ways of getting at them. There must be reserves on hand.

Yet all these precautions cost money. Directly and indirectly they are likely to increase the cost of the energy we buy. The costs will probably take the form primarily of increased investment requirements for the private companies. At the same time, it is likely that governments will choose to take some actions involving cost to themselves in order to influence the direction of the total investment in the production of energy. And these various increases in investments and budgetary outlays will eventually burden the consumer also through the prices and the taxes he pays.

The increased investment outlays by the private companies will, I expect, be undertaken for two reasons: to fulfill their responsibilities to the societies of which they are a part and to take properly into account the seemingly increased risks. Analysts have long commented on the risks inherent in concentrated oil investments abroad; though the fears are rarely borne out, recent events have indicated that when unpleasantness does come it can come in rather large doses. These considerations will suggest the wisdom of some expensive undertakings even though, if risks could be ignored, other more economical possibilities would be at hand. Taking risk into consideration is more than a matter of avoiding undue expansion where the dangers are great; it also involves making investments which in a literal sense will, like insurance, pay out only in times of unwanted trouble. We may be in a situation, however, in which the more insurance is bought, the less likely is trouble to come.

For the oil companies the increase in investments to provide flexibility will take many forms: expanded exploration in areas more strategically located, even though possibly less promising geologically; development of surplus shut-in productive capacity in many areas; construction of spare capac-

ity in refineries; acquisition and employment of increased storage capacity; and building of increased flexibility into the transportation system for oil.

The financing of all of these activities will be a major undertaking. As just one example, an estimate has been made that it would cost about a billion dollars to build the pipeline from the Persian Gulf to the Eastern Mediterranean which has recently been discussed. To finance undertakings of this magnitude the oil companies will undoubtedly be under great pressure to retain a considerable proportion of their earnings and, notwithstanding such retentions, I should expect they will increasingly have to seek the help of the capital markets. It would seem likely also that the bulk of the requests to the market will be here in the United States; it is unlikely that the capital markets of Europe will have very many funds to spare.

At the same time as private outlays increase, governments will possibly be more heavily involved in expense and deliberate loss of revenue in fulfilling their responsibility to protect the security of their nations. As the experience of the United States in recent months so well suggests, it may be in the interest of governments of major consuming areas to promote—by tax provisions, prorationing, and other means—the exploration for oil and the maintenance of widely dispersed shut-in production capacity ready for use on short notice.

Some governments may also be involved in expense in financing the cost of maintaining, for security reasons, petroleum inventories in excess of normal working levels.

There may be assistance to new transport units, whether in the form of certificates of necessity for alternative pipelines, new harbor facilities for the extra large tankers, or new tax allowances on ship construction. You may have noticed that the British have just announced a doubling in their investment allowances on new ship construction.

Finally, there will be pressures for increased investments and subsidies for production and research in energy sources other than imported crude oil and its products. Already there have been government actions to encourage increased

activity in atomic plants, and in shale reduction, and similar pressures undoubtedly exist in the fields of coal, hydro-power, and oil-bearing sands.

I have presented a long and varied list of the forms that may be taken by the efforts to increase the assurance that the free world's growing needs for energy will be met without danger of serious interruption. Nonetheless, despite the range of possibilities, it is my considered judgment that the increasing demand for energy will be supplied—as was predicted before Suez—by growth in the international movement of oil and its products. It seems unlikely that over the next ten years even greatly accelerated efforts to develop atomic, shale, coal, or water sources of energy could have more than a marginal influence on the tremendous increases forecast in demands for oil. Consequently, the chances are that any changes in direction induced by the Middle East crisis will be less significant in promoting substitutions for crude oil than in influencing the geographic pattern of oil production.

There are possibilities for emphasizing relatively safer areas in oil exploration and production efforts over the next few years. Though finding oil has become increasingly expensive, it is significant for the future that in each year of the recent past we have succeeded in expanding the proved reserves in the United States. Exploration and development efforts are already expanding in Canada, Venezuela, Colombia, Peru, and in various countries of Central America and the Caribbean. Even greater efforts might be undertaken in other areas of South America if the governments concerned had the courage to take advantage of the present opportunity by enacting legislation hospitable to private oil investment from abroad. In Europe efforts are being pushed to expand the volume of the oil already flowing from the ground in France, Germany, Holland and Austria. Exploration is under way in Denmark and it is hoped that elsewhere in Europe governments will take steps to encourage more extensive exploration within their territory. Meanwhile, great expectations have sprung up for the Sahara in Algeria, Libya, and elsewhere, and exploratory drilling has

begun in widely scattered areas elsewhere in Africa and in Asia, for example in Nigeria, in the Philippines, in Pakistan and in Turkey.

Just as the industry came up with the flexibility to meet its recent crisis, I am sure it will measure up also to the longer-run assignment of meeting efficiently the world's expanding oil requirements while at the same time providing the spare capacity and the flexibility to serve its customers in any other time of emergency. Far-sighted efforts will, of course, be required of many companies and in many parts of the world.

At the same time, I am sure that the companies operating in foreign areas with reserves already known to be large will continue to make large investments and increase production in those areas. But wise investment is limited by prospective sales outlet, and the expressed supply source preferences of the consuming areas and the probably increasing supplies from competing sources will serve to restrict investment in some major producing areas below the staggering levels which seemed likely before the events touched off by the expropriatory action of Egypt last July.

The pressure for alternative sources of oil, even at higher cost, is strong. It will probably continue to be strong unless political confidence can be created between the major consuming areas and those other areas with oil reserves or with waterways or real estate useful in the transportation of oil. Probably such confidence can only be created gradually by satisfactory experience, and a crucial aspect of that experience will be the record of governments in observing their agreements with foreign business organizations.

There is one strong reason for hope that the necessary confidence will be created: it is clearly in the mutual interest of both oil-importing and oil-shipping areas that the climate of security for oil investments be increased. To the extent that the climate is improved, the more economical use of the world's scarce resources will be permitted. Consuming areas will have less costly fuel, and the producing and transporting areas will have increased revenues to be used for the economic betterment they so desperately need.

REMARKS BY THE CHAIRMAN

CHAIRMAN MACMAHON: We are indebted to Dr. Collado for this well-packed and compact analysis.

We have been discussing a peculiarly necessary energy source at the present time. As one turns now to another energy he reflects on the fact that energies are by nature incandescent, explosive, and doubtless that is true of solar energy if we could be near enough to it. Certainly we are turning to a peculiarly explosive subject, though we look at it hopefully in terms of the topic, "Atomic Energy—Its Contribution to World Peace", which will be presented to us by Robert McKinney.

After leaving the University of Oklahoma, Mr. McKinney was for a time in the East, but he returned to the Southeast where his grandfather, I understand, freighted goods across the prairies into the Southwest, and he became by purchase the publisher of the oldest newspaper in the Southwest, the Santa Fé *The New Mexican*. He divides his time between his work in the Southwest as publisher and participant in state and other affairs and work in the East where he is associated with various companies. But we think of him this afternoon especially because of the rôle he played in the public service as Chairman of the Panel of Citizens set up under the Congressional Joint Committee on Atomic Energy which, between 1955 and last year, produced the long report published by Congress on this question of peaceful applications of atomic energy. We are indeed pleased to call upon Mr. McKinney.

ATOMIC ENERGY—ITS CONTRIBUTION TO WORLD PEACE THROUGH ECONOMIC SELF-HELP

ROBERT MCKINNEY

Editor and Publisher of *Santa Fe New Mexican*
Chairman of Panel to report to Congress on the Impact of
Peaceful Uses of Atomic Energy, 1955-56

A SHORT time ago I returned from a month's visit to Europe, during which I had an opportunity to meet atomic leaders in industry, science and government in most Western European countries and to discuss with them how the peaceful uses of atomic energy can bring better life to the free peoples of the world.

Last year, as chairman of a nonpartisan citizens' panel which reported to the Joint Congressional Committee on Atomic Energy on the impact of the peaceful uses of atomic energy, I had the good fortune to observe in intimate detail the exciting advances which are taking place in this country in the development of civilian atomic applications.

These discussions abroad taken together with our panel study have led me to the stimulating conclusion that the civilian uses of atomic energy, if properly brought to bear in the field of international relations, can indeed be powerful implements to help us in our efforts to assure peace.

For the past forty years, nations of the world have been desperately seeking a formula for peace. By multilateral meetings, bilateral agreements and unilateral actions they have tried to guard against aggression—whether the aggression be ideological, economic or military. How effective these attempts have been can only be judged in a relative way.

Indeed, we have had no world war since 1945. But, certainly, Greece, the Berlin airlift, Korea, Indo-China, Hungary and the Middle East will appear in history as more than footnotes. Nor—heated as it more and more often is by searing flashes—can we continue to dismiss this condition as “cold” war. It is, indeed, war in the pure sense; in the sense

of basic disagreement between sovereign nations backed up by all available means of destruction—economic attack today, military attack yesterday and perhaps tomorrow.

The search for peace has therefore become man's most urgent quest. But such formulas and mechanisms as we have been able to devise so far can only be called halting first steps in the right direction.

I

There are four propositions which I would like to suggest in the belief that they are relevant to our consideration of the chances for peace—whether in our time or in the more distant future. These propositions are:

FIRST: The underdeveloped nations of the world are—or soon will be—in rapid, often violent, transition from outmoded ways of life. Few of these nations have structures so mature that we can safely assume that further social, economic and political changes will be deliberately and democratically accomplished.

SECOND: Unless the people in underdeveloped nations are held down by firing squads, the masses are bound to compel national leaders to take whatever courses seem to offer the quickest improvement in their own scale of daily living.

THIRD: The industrialized nations of the world have vital sources of fuels and raw materials and vital markets in these underdeveloped nations. And in a world living under present conditions of tension and change, any industrialized nation—no matter what its ideology—which loses access to these necessities must suffer a decline in productive industrial output and an increase in unproductive military outlay. Nations so isolated face eventual breakdown.

I believe you will agree that if these first three propositions are sound, the continuation of present foreign policies by the nations of the world would seem to make war inevitable.

But I would now like to introduce the fourth proposition which gives me much hope and which I believe is equally sound. It is this:

FOURTH: Industrialized free nations can lessen the risk of losing vital foreign materials or markets by furthering the evolution in the world's uncommitted and underdeveloped nations of structures in which inevitable changes can take place peaceably, and in which national pride and hope for higher living standards can find constructive outlet.

Any consideration of emerging international problems must start from the premise that nations give up only grudgingly the things they consider their private property, whether the concept of property covers foreign markets, foreign supplies of raw materials, or favored positions in foreign lands. Still, anyone who tries to take such property away from any nation usually has to fight for it. And still, nations place faith in their foreign policies only to the extent that they can enforce those policies—right or wrong, sound or unsound—by strength of arms.

Fear of the possible use of nuclear weapons adds tension to every minor situation, for most situations have at least off-chances of flaming into open conflict between the great Powers. Man's manufacture of aircraft and missiles which can span enormous distances at high speeds and his ability and willingness to create and use weapons with explosive forces equal to many millions of tons of TNT have introduced an entirely new dimension into the cost of diplomatic error or into the cost of miscalculation of the moves and intentions of others.

Thus, while our possession of a large stockpile of nuclear weapons and our ability to deliver these weapons anywhere in the world in a matter of hours have been a shield protecting the free nations from communist domination, potential aggressors have also developed their own arsenals of nuclear strength and the whole world has had to pay the price of increased tension.

Most regrettable of all, we have had to pay the price of seeing this Promethean atomic force used for purposes far below its highest capability—used as a policeman's club to keep enemies from attacking us, when we would prefer to dedicate it wholly to the civilian benefits which our reason tells us mastery of the atom can and should bring.

II

How real and how immediate are these potential civilian atomic benefits?

Some two years ago, our citizens' panel started looking into the progress being made in peaceful atomic uses in an effort to measure their impact on our nation and on the world. This work brought to bear the cumulative thinking of several hundred scientific, professional and industrial leaders in close to a hundred special studies. Here are just a few of the highlights of what our studies brought out:

Atomic electric power is here. Plants of present design can be safely operated. Even today, they can be economically competitive in high-cost power areas.

In agriculture, through atomic radiation new plant strains have already been developed which yield more, are better adapted to mechanical harvesting, and better able to resist drought, bad soil, pests and diseases.

Hundreds of atomic applications are working quiet revolutions in almost every phase of industry.

In medicine, several radioactive isotopes are now accepted pharmaceuticals; many more are in the laboratory stage. Thousands of patients have been treated with radioisotopes; millions have been given atomic medical diagnosis.

These early accomplishments, however, only scratch the surface.

Within one or two decades, a large part of our merchant fleets carrying oil and ore may be running on atomic power.

Within twenty-five years, more electricity will be produced in nuclear—perhaps also thermonuclear—power plants in the United States, Great Britain and Western Europe than is produced today from coal, oil and falling water.

Let us now consider the new elements which these peaceful uses of atomic energy can introduce into the international situation. To my mind, there are two:

- (1) The atom today is specifically that new source of electric power which can relieve the complete dependence of many free industrial nations on imported fuels.
- (2) The many peaceful uses of atomic energy—power and all the rest—can provide new, constructive outlets for pressures accumulating in underdeveloped nations.

III

Because the part which atomic power can play in economic self-help and national survival—and therefore in world peace—is the number one news story in Western Europe, may I briefly sketch the situation there.

Suez was the most frightening demonstration yet that energy is the critical factor in all modern economies, that any industrialized nation deprived of vital foreign fuels faces breakdown, and that these energy supplies can even be cut off in what must now pass as a time of peace.

The epidemic of nationalism and the rise of a generation of volatile local leaders in many parts of the world, in conjunction with nature's capricious distribution of conventional energy resources, now show how ill-starred was Europe's past failure to press forward vigorously with comprehensive atomic power programs. This failure made the Suez situation inevitable, given the emergence of a new protagonist anywhere along the fault line in the Middle East.

The very fact that the Eisenhower Doctrine has become necessary convinces the free nations of Europe that they must make themselves less vulnerable to the consequences of further difficulties—military, political or economic—along this fault line. With continuation of essential rates of industrial growth in Western Europe, and bearing in mind that three fourths of the free world's oil lies in the Middle East, a crisis like Suez a few years from now would be devastating.

I do not mean to imply that through atomic power the world can or should free itself from the need for Middle East oil. To attempt to do so appears foolhardy from the technical standpoint and unwise from the standpoint of relations between nations. If indeed we seek a peaceful world, we cannot isolate Middle East oil from its natural markets, particularly in Western Europe.

Even if atomic power were now available to Western Europe in large quantities, turmoil in a country astride the Suez Canal would create an international problem. But certainly it would be a problem less grave than the one which today holds many nations in such a state of unhappy suspense. This would be true, whether the atomic power came from

early model plants barely capable of being economically competitive in high-cost areas or from the most advanced designs yet conceived.

Therefore, both in Britain and on the Continent people see that the atom as an energy source can no longer remain the exclusive province of scientists and government officials.

Atomic power is everywhere recognized as that *alternate* energy resource which can save Western Europe from becoming vassal to foreign fuel producers. It is at least that stand-by on which Europe can fall back during periods so critical for other reasons that power costs are not important.

But to nations whose economies are expanding rapidly, like Germany and Italy, atomic energy is more than just an alternate and safeguard. With domestic fuel and water-power resources already overtaxed, facing ever-larger drains on foreign exchange and transport for fuel from abroad, they see the atom as a *complementary* energy resource which will be essential over the long term.

In the nation farthest ahead in actual generation of nuclear electric power, the United Kingdom, they see atomic energy as a potential source of *low-cost* power.

So in Western Europe this spring, men in the streets are convinced that nuclear reactors are more than decorations for skill in engineering and money spending. They see that atomic power is indispensable to solvency and survival.

IV

Let us look briefly at what one ally, the United Kingdom, is doing to meet its need for atomic power.

Britain must make her living in the world market against world competition—and a very tough living it has become. The aim of those now shaping England's atomic program is to do away with their country's handicap of high-cost power. In place of that handicap, they propose to give Britain a head-start with cheap power.

The problems which face the British in reaching this goal are many and complex. But the official and industrial teams working on this program are impressive in their competence. England's rivalry for atomic leadership—technologically, industrially and in international affairs—will be very real.

Creative economic thinking in England, after Suez, is typified by a leading industrialist, Sir Claude Gibb, who says, "Only as a matter of expediency, and then only because there was no alternative, should we as a nation become dependent upon oil to the extent that further wars become inevitable in preservation of it."

Therefore, the United Kingdom's major policy decision, after Suez—to put her atomic power program on a cash basis—should not have been a surprise.

England's estimate of the urgency is apparent in the size of the increase. She is tripling her previous atomic program—tripling it at direct cost for power plants of two and a half billion dollars, and at a large but unpublicized further cost for the host of installations required in support.

Thus, Britain will be building up the most critical sector in her economy, electric power. She will be paying for this, not out of current income and taxes, but from borrowings for capital investment. The expansive effect on England's economy of this policy decision will be far-reaching.

The atomic awakening in Britain, the course of action it has inspired, and the resulting enthusiasm and activity are something of which America should take sober note. This wave of awareness is spreading to other countries.

V

Far too little space is available here for adequate discussion of the part which the peaceful uses of atomic energy can play in providing new, constructive channels for pressures accumulating in underdeveloped nations. We can at least suggest enough, however, to start our imaginations working.

In these countries going through the growth pains of economic independence, irresistible forces come to bear upon local leaders because obsolete systems cannot keep up with the barest needs of explosively expanding populations. These pressures must find outlets. They will continue to cause upheaval and chaos, if not directed into new, constructive channels.

Certainly atomic energy is no cure for all ills of all nations. But if we can bring atomic benefits to underdeveloped countries as part of constructive over-all programs we can do more than merely satisfy economic needs.

This is not wishful thinking on my part. Atomic energy has almost a sorcerer's touch; for example, in some parts of Southeast Asia where it is hard to raise enough food for the lowest level of subsistence. Educated people there have seldom made careers of agriculture. Yet a few hundred dollars' worth of radioisotopes, used to show how crop yields can be increased or plant strains improved, are now causing brilliant young people to take up careers in agricultural research and in practical dirt-farming.

In talking specifically about atomic power for underdeveloped countries, we must of course talk about it as part of an over-all plan for constructive use of the power generated and the beginning of capital growth. Yet, even at the outset, there are areas abroad where small nuclear power plants, built at relatively modest cost, could have the same maturing effect on local economies as plants many times the size using conventional fuel, and could even induce a greater degree of political stability.

VI

Since the end of World War II, the United States has found it necessary to provide others with military and economic aid in order to help them remain free. In the past eleven years, we have spent over 60 billion dollars in foreign assistance. We have sent money, food, equipment and technicians to all parts of the globe in order to build and hold bulwarks against the malignancy of communism.

Yet, while we can see that the strength of the free world depends upon the economic health of its member nations—upon the ability of each country to stand on its own feet—we must also recognize that all the aid we have given has not made up for the energy resources nature failed to provide. Nor can help in the form of credits, technical advice or goods make healthy economic growth possible when an insurmountable barrier—the absence of reasonably priced power—prevents such growth.

To me, one conclusion is inescapable: We must use all peaceful means available to us—atomic and otherwise—to free other people from continued low scales of living, and to free their countries from the threat of economic isolation.

Others can take shelter behind America's military might.

But where can we take shelter? Only in a world at peace, a world where the teeming millions of teeming nations can hope to have lives as full as our own.

To have any lasting value, however, the foreign aid program of the United States must work toward ending those basic personal injustices which turn ordinary people against us. If we do not use care in making sure exactly how our help is brought to bear, we may find—as we have often found in the past—that our most unselfish acts result only in making people more bitter than they were to begin with.

Therefore, in our quest for peace, atomic energy—particularly atomic power—can be important, because it can help reduce sacrifices often imposed by rapid industrialization.

VII

Some of the benefits which can flow from present exploitation of the peaceful uses of atomic energy, and from future applications still in store, have now been sketched. But values of another and even higher order can be realized. It is with brief mention of this third range of values that I would like to close, because I believe that the peaceful atom can introduce into relations between nations an important new instrument for use in the quest for peace.

I suggest that, in the peaceful uses of atomic energy, we have new means for establishing understanding between nations.

Until recently, such a suggestion would have been called impractical. Even though atomic energy is a field so international in its growth and breadth, until three years ago there was no common ground on which men of different countries could meet, no common set of meanings which they could use in talking about atomic matters.

I said that atomic energy is a truly international field because I think we must all agree that science knows no national boundaries. No single country, no single ideology, has a monopoly on knowledge or on the way it is put to work.

To list the names of the many who have contributed to the present state of atomic development—like Fermi and Von Neumann in the United States, Cockroft and Penney in England, Perrin in France, Amaldi in Italy, Bohr in Denmark,

and others in Germany, India and around the world—would be to collect a “Who’s Who” of the outstanding scientists and engineers of this generation. If there is to be either credit or blame for the atomic age, almost all nations must share it.

Yet, until recently, it was extremely difficult—in fact, under the laws of some nations it was illegal—for scientists of different countries to talk with each other on atomic energy matters. People at the policy-making levels of many great nations had confined their thoughts and actions so long and so exclusively to veiling atomic military applications with secrecy that it was almost impossible, even among friends, to consider the really basic technical factors involved in the critical problem of preventing nuclear war. Certainly, there was little public understanding of the ramified implications of this broad field.

However, with his historic address to the United Nations in December 1953, President Eisenhower stirred the imagination of mankind with hope of international understanding by his proposal for the establishment of an international atomic energy agency.

Since the President’s proposal, there have been important extensions in the collaboration between the United States and nations of the free world. For example, while last fall much was being said about the breakdown of communication between London and Washington, British and American scientists were discussing together at that very time atomic programs to help our two nations and the world.

For another example, the United States Atomic Energy Commission indicates that there may soon be made freely available all information, concerning technology developed in the United States, needed for harnessing nuclear energy as a source of civilian electric power.

But, while enormous strides have been made, there must be even greater progress so that as men of all nations join together to discuss peaceful atomic developments, as they begin to appreciate each other’s ability to contribute, as they begin to understand each other’s thoughts and actions, the closer they will come to being able to talk frankly about all aspects of atomic energy, including the military. Only from

frank talk can come real agreement on the control of nuclear weapons—agreement which will be binding and which will assure the broad measures of international control and the guarantees so essential for lasting peace. From such agreements on the control of atomic weapons can come reduction of those tensions which introduction of these weapons has brought to the world.

Achievement of agreement in a field so complex, so closely tied to the basic security of the participating nations, can be of great help to those engaged with the many other problems which plague the world and make peace unsure.

VIII

Looking back over the first part of this discussion, it might seem to some that we are faced with one or the other of these two prospects:

FIRST: The prospect of uneasy stalemate, during which we must continue to add to our armaments and to our military and economic aid assistance programs at ever-increasing drain on our economies; or

SECOND: The prospect of counteroffensives in kind to further communist aggressions—military, political or economic—which actions clearly appear to lead to ultimate open conflict.

But, in the latter part, I hope I have been able to show that there can be a third and happier prospect:

The prospect that the peaceful uses of atomic energy can help us establish a new pattern in international relations—a pattern which will enable us to bring to bear on the problems before us new forces to help the conventional forces of diplomacy and arms; a pattern of economic self-help which will give constructive channels for pressures accumulating in both industrialized and underdeveloped nations; a pattern of reduced tensions and better understanding between nations as public servants, scientists, engineers and business men focus on a common subject and for a common purpose the peaceful talents and genius of the world.

DISCUSSION: TRENDS IN OUR FOREIGN POLICY

CHAIRMAN MACMAHON: Thank you, Mr. McKinney, for this thoughtful, prescient, spirited presentation.

Since the founding of the Academy of Political Science in 1880, it has been customary to blend two elements: carefully prepared papers, and opportunity for some discussion from members of the Academy and their guests on the other side of the table.

The exemplary succinctness of the three papers this afternoon fortunately has left us time for a good deal of discussion. It will be well, I think, as I recognize those who care to rise for comments or questions, for them to indicate their identity. Now may I suggest that you let your minds range back over these three quite different but, in many important ways, related papers, and I am prepared to recognize for purposes of the discussion, Professor Wright.

PROFESSOR DAVID McCORD WRIGHT: I would like to ask Mr. Henderson this question: It is my understanding that Mr. Henderson suggested that we should, where possible, push neutralist nations into key positions in the United Nations. If we do that in order to avoid colonialism, how can we rely on action by the United Nations in case of emergency?

I would like to make one further comment. We remember that, when China was falling, we were told that the Chinese Communists were not Communists but were agrarian reformers, so that "agrarian reform" was a great slogan. I wonder if colonialism isn't going to turn out to have pretty much the same effect in the present situation.

CHAIRMAN MACMAHON: Mr. Henderson, do you wish to comment?

MR. HENDERSON: Before I comment, may I ask for a word of clarification on your last remark, Mr. Wright? I don't quite understand what you mean. I understood your first point.

PROFESSOR WRIGHT: I gave about five minutes of my speech this morning to this same issue. What I would really like to ask is, what is colonialism?

MR. HENDERSON: I address myself to the second part of your question first. In the body of my paper I tried to point out that to the peoples of the non-Western world, the term "colonialism"

has many different meanings, and does not refer exclusively to the present colonial status of a still considerable portion of the earth's surface. The sentiment of anti-colonialism arose from the interaction under unusual circumstances of two disparate cultures and civilizations, and the consequent effect upon the non-Western peoples of this interaction. There is no single policy by which the United States can respond satisfactorily to this anti-colonial attitude. It is rather a question of the whole posture of the United States, and of the rest of the Western world as well, toward these newly emerging nations.

With respect to the first point, I did not suggest that the United States should invariably push neutralist candidates into important positions in the United Nations. I said that we should support non-Western candidacies, whether neutralist or pro-American, whenever feasible. This is not a matter of fundamental importance, perhaps. But it is one way by which we can show deference and respect toward the peoples of the non-Western world.

It is my own view that too frequently we inject the cold war into situations where it does not belong. Whether we like it or not, people think otherwise than we about the cold war. I recognize that there are dangers in my suggestion. Where would we be if an unfriendly neutralist were the chairman of the wrong committee at the wrong time? But does not all policy involve risk? What I am suggesting is that the time has come when we can take some risks; that one of them is to show increasing consideration for peoples who do not necessarily agree with us; and that one of the marks of such consideration on a very superficial level would be to back non-Western candidates as much as possible for important positions in the United Nations.

CHAIRMAN MACMAHON: Professor Wright, do you wish to make a rejoinder?

PROFESSOR WRIGHT: I wonder if this isn't a bit like the teen-age problem. I mean by that, if you are sympathetic in the control of teen-agers, you want to respect their dignity and make them feel independent, and so on. But sometimes there has to be action and discipline.

In the same way, if colonialism is merely an attitude toward certain nations, sometimes if they are doing very, very dangerous things, it may be necessary for us to take action. Now, if we are so completely anxious to avoid the appearance of discipline or patronage, that we cannot do anything, isn't it rather like the

same problem of delinquency, and that sort of thing? I mean, certain actions are sometimes necessary. If we are never to do anything that in any way bothers these nations, how are we going to protect ourselves or world peace?

MR. F. D. NICHOL [Washington, D. C.]: I am an editor. I would like to ask my fellow editor, Mr. McKinney, this question: Have you any idea how soon this Atoms for Peace Program will eventuate in an economically tactical program of power development for these various nations?

MR. MCKINNEY: You have to take up each, country by country, to answer that. I say, in a nutshell, atomic power is probably not too far from economic in a country like Italy now. In a country like the United States it is a long ways from economic. There are other countries in between.

It also has to do with what you are competing with. Atomic power is not now competitive with water power or natively produced coal in any country in the world. But if you must generate a portion of your electricity from coal you must buy abroad at \$22 or \$25 a ton, that is a different story.

MR. NICHOL: Well, then, as far as Western Europe is concerned?

MR. MCKINNEY: That is the point. You cannot talk about Western Europe as one. You must take up country by country. Italy has no major amount of water power underdeveloped, so she must go right to other forms of energy. And she has atomic plants now on order, some of them from American manufacturers.

France still has underdeveloped hydroelectric resources. She feels that she may need other energy sources less rapidly than perhaps Italy and England.

Germany has a shortage of coal, but it is in the type used in steel mills, and she still has a plentiful supply of brown coal for power plants.

You must take each country by itself and figure at what stage in the explosively increasing demand for electric energy atomic power will come in. I would say there are very few countries in Europe in which it will not come into some phase of production within the next ten years.

MR. J. V. PEARSON [New York]: This may be somewhat of an indeterminate and "iffy" question, but it has been on my mind.

I recently heard a lecture in which Mr. Thompson offered the suggestion that there seemed to have arisen in the United Nations recently a very definite indication of the desire for conciliation and accommodation of this trouble between the Eastern world and the Western world. And he was making the point that all were beginning to recognize the terribly destructive power of atomic war, and nobody wanted to start it.

Certainly our system of government would not let us make anything in the nature of a preventive attack. In other words, we are not going to attack. But we want to be strong enough to stop anybody who might.

But might it not prove that the discovery and application of atomic energy, after all, might be the greatest blessing that has ever happened to mankind, inasmuch as this might produce this feeling that there must not ever be a major war again—and there well might not be? Would Dr. McKinney like to speak on that?

CHAIRMAN MACMAHON: This question was described, Mr. McKinney, as an "iffy" question—and how many difficult questions are "iffy"! But you are bravely going to answer.

MR. MCKINNEY: I think I can best answer that question by disqualifying myself, because he called me Dr. McKinney; but I am not a doctor, and it would take a doctor to answer that question. My intense enthusiasm for the peaceful use of atomic energy arises from its great benefit as an instrument in the quest for peace, an instrument in international relations.

CHAIRMAN MACMAHON: I wonder if other members of the group on this side of the table care to comment before we pass on.

MR. HENDERSON: I would argue that the harnessing of atomic energy, and the almost fantastic development of nuclear weapons technology, have made unlikely the recurrence of a global war, since, as has frequently been pointed out, regardless of who "won" such a war, all of us would probably be destroyed in it.

I think we should be cautious, however, about reaching a corollary conclusion which I cannot reach, namely, that all war is therefore out of the question. The likelihood of small wars is perhaps even greater than it was in the past. There is a real danger that, in reaching what seems to me the proper surmise that great wars are unlikely, we shall unconsciously assume that small wars are unlikely as well, and fail to take those measures of preparedness and precaution which are, in my view, still very necessary for national safety.

MR. BERNARD GILLIS: In the light of what has been said here this afternoon, it seems to me first of all that Great Britain's action against Suez was fully justified. I would like to know whether the speakers agree with me. I think it has been fully justified, first of all, because atomic energy, as the last speaker said, is about ten years off; second, because Great Britain had an ironclad contract; and third, because of the importance of oil which a former speaker stressed. It was simply a question of life or death for her. Therefore, I would like to know whether the speakers agree with me that her action was fully justified morally and, of course, legally.

CHAIRMAN MACMAHON: The speakers here are justified, if they wish, in sharing the answer to this question.

MR. COLLADO: I can certainly agree with the questioner in the sense that Great Britain faced a very real problem. Whether the particular means of doing something about the problem were justified is a question people have been debating, and, I am sure, will continue to debate for a very, very long time.

I suspect that one of the answers to the question as to whether England did right is whether England succeeded. It is possible by some very long, roundabout process to say that what was started there may, in the very long run, turn out to be a good thing. But it is rather hard to see that, in the very short run, it was a successful action. I am not speaking of the morality of the situation, or even the legal aspects of it. It seems to me that on the observation of facts, it was not a very successful operation. When an action does not succeed, it probably was not very well conceived.

CHAIRMAN MACMAHON: Will this suffice from the group, or does somebody here wish to supplement it? Apparently it will stand as the answer from this side.

MR. GEORGE TOURAIN [Bridgeport, Conn.]: Perhaps I might be a little facetious in trying to answer the question. If I answer the question rightly, I should be recommended to the State Department.

I think in order to find a legitimate answer to that question which will verge upon the legality of it would be to make a determination of the balance of equity of the interests of England and France as against the sovereignty of Egypt. When I say the interests of England and France, or Western Europe, I mean their right and their reason to so move.

In view of the position they were put in industrially and economically, if there had been entire cessation of delivery of oil to those countries, the balance of equity, to my mind, rested with England and Western Europe as against the slightly worn-out claim of sovereignty of Egypt. I think for that reason the existing contract of Constantinople would confirm my opinion that their interest, to this extent, was paramount to the sovereignty of Egypt. To that extent, I think it bears legal sanction.

MISS BEATRICE HYSLOP [Hunter College, New York]: This question is addressed to Mr. McKinney, but possibly either of the others might wish to comment on it.

In so far as the natural resources of the world are unequally distributed, does not the distribution of uranium and other atomic energy materials lead to possible wars—little wars, if you will—but isn't that one of the new forms of colonialism, controlling these natural resources of uranium?

MR. MCKINNEY: I surely can answer that question. I come from the great state of New Mexico which has 70 per cent of all the uranium in the United States, and we have the most in the world. So if there is any colonialism involved, it is New Mexico, and I am glad we are part of the Union.

MISS HYSLOP: How about Belgium and Holland?

MR. MCKINNEY: I would like very much not to be put in a position of an encyclopedia on all these questions. I think that what we need to do, to answer your question, is to say that we have all the uranium in this country that we will need for our program in the foreseeable future, as well as a vast amount which we can give to other countries. President Eisenhower has offered 20,000 kilograms of fissionable materials to assist the programs of others.

We have assured the leaders of Western Europe that their requirements for fissionable material for peaceful uses could be met, and they were talking in really substantial terms. So I am happy to say that the issue of colonialism does not impinge upon the question of uranium deposits, except possibly New Mexico.

MR. LYMAN HOOVER [Asia Foundation]: With regard to the first paper on colonialism, Mr. Henderson's, some of us know he recently spent a period in the Indo-China area. That is an interesting example of transition from colonialism to a degree of independent responsibility.

I think it would be of interest to us if he would comment, in a little more detail from his recent experience there, on whether this transition from a colonial administration to independence is working out satisfactorily, and whether the good will of both the newly emerging nation and the former colonial Power is being conserved in that area. It is an interesting case study in this problem.

CHAIRMAN MACMAHON: Do you care to comment?

MR. HENDERSON: As you all know, the succession states of former French Indo-China have had real independence for less than three years, and it would be next to impossible to reach anything more than the most tentative conclusion as to whether they are making out more or less well.

I have been impressed in visiting these countries that they would much prefer to make their own mistakes than to have someone else do things correctly for them. It is the power to decide rather than the substance of decision which is higher on their list of priorities. Hence I would say, if limited to a single response, that these countries are getting along reasonably well. They are much happier than they were three years ago. Independence is infinitely better than the life of even the best-ruled colonial people.

If you turn the coin over, however, there is no doubt that these governments are not equipped to meet efficiently the day-to-day tasks of administration and the longer-range problems of reform which all of them must face up to. More than anything else they lack the trained personnel, the experts and administrators, necessary to get on with the job. Therefore, they make grievous mistakes, tragic blunders. But by and large, I would say they prefer to make them, than to have others rule them well.

As for relations with France, they could not have been worse than they were three years ago, but they are getting better. The political control of the French has of course been eliminated. But it should be remembered that the intelligentsia of these three nations is French-educated and French-trained. Now that colonialism has disappeared and the unpleasant memories of alien domination have begun to recede into the past, these people tend to become nostalgic about many aspects of their French background. I think that we may see over the next several years a very real *rapprochement* between France and the succession states.

CHAIRMAN MACMAHON: Thank you, Mr. Henderson.

MISS JULIETTE BURSEMAN [Teachers College, Willimantic, Conn.]: The question I wish to ask is related to Mr. Henderson's recent comments. He may wish to answer them, or we might go back to Dr. Collado's paper.

I think there is a possibility of going overboard on this idea of atomic energy in countries where there is an abundance of hydroelectric power. Doesn't it relate, then, to your feeling of becoming more concerned with independence than with the ability to carry on with the necessary dependence?

My question then is, what in your opinion is the immediate use of atomic power in underdeveloped countries as against hydroelectric power—or any other natural resource—when natural resources are in abundance?

CHAIRMAN MACMAHON: Oil has been left out, but I don't see why we won't profit by Mr. Collado's comments as well as Mr. McKinney's. Shall we start with you, sir?

MISS BURSEMAN: I think, Mr. McKinney, I should add the flippant note—and especially with 70 per cent of the uranium being in New Mexico.

MR. MCKINNEY: I should like to confine myself to saying four things, and then stop whether I have answered the question or not.

First, you have to consider each country on its own. The greatest immediate need for power is in the nations which are now industrialized. A specific example is Japan. Japan's industrialization in the early part of the century was based on the cheapest hydroelectric power that the world had at that time. It was run-of-stream power; no expensive storage dams, just the turbines. They generated power very, very cheaply. Now, practically all of their hydroelectric resources have been employed. It will cost a great deal to build any further hydroelectric plants. And if they could be put into use at high cost, even the unused water supplies are small.

In Scotland, for example—going to the other side of the world—there is some hydroelectric power. But the Scots use it by storing water in one dam, dropping it to another, and then pumping it back up in the off-peak demand period, just to get surplus power to use in the peak demand power period.

In places where you have vast amounts of unexploited hydroelectric power such as some of the great river systems in South

America or Africa, the dam sites that I am now thinking of are far removed from sources of consumption. So you have your transmission problem.

If I can leave one thought with you, it is this: We must look at each country on its own. Atomic power is not the answer to all the problems of underdeveloped countries, but in many, many countries it can play a very, very significant rôle.

MR. COLLADO: I would like, if I may, to go back and say a few things with regard not only to underdeveloped countries, but, as Mr. McKinney has, to countries generally.

I see many people in the audience who could answer this much better than I because they are very familiar on a working basis with energy requirements and their development all around the world.

The first point Mr. McKinney made is, of course, correct. The big consumers of industrial energy are the highly industrialized countries. The United States is still, by all odds, the greatest user, Western Europe next; and the total consumption of the East—East of Suez—is relatively small compared to the consumption of the energy West of Suez. That clearly is relevant, as Mr. McKinney pointed out.

The facts are that of the older conventional forms of energy—the original one being wood which is still a considerable element, although percentagewise a much smaller one than it was some years ago—wood, coal and other coal-like products, and water power are three which have demonstrated relatively little ability to expand to meet the very rapidly growing requirements for energy.

Coal has still some expansionary possibilities in some countries. It has become quite high in cost in a number of countries. For example, in England, it is high-cost not only in the limited sense of strict financial cost. The difficulty of inducing workers—British workers are the only ones whom they allow there—to go into the mines on an increasing scale seems to have convinced the British that the possibilities of any large increase in coal production are very, very remote.

Water power, as Mr. McKinney has said, in most of the places where there is a present demand for energy is almost to the point—if not beyond the point—of diminishing return from an economic point of view. And the large available sources of water power are very remote from any present-day places where it might be consumed.

The result is that in the last few years—and well before that in the United States—in Western Europe we have suddenly seen a tremendous turning to oil as a principal source of power. We have also used oil as a fuel for locomotion—the use of gasoline, and all the rest, is very well known. In Western Europe we have suddenly seen a great development, really a development of nearly explosive dimensions in the use of oil for fuel. There is beginning also the use of oil for heating which has never been developed in Europe in the past to anything like the same degree as here.

All the forecasts I have seen made by government officials at home and abroad, as well as by industry and other statisticians, have shown a very large percentage of increase in energy requirements being fulfilled by oil. In the last year or two, we have seen increasingly stepped up estimates of the rôle of atomic or other nuclear power in fulfilling these greatly increased requirements. I think that as a result of the stepped-up pressures of the last year or so, and to some extent as a result of Suez, the shorter-run forecasts for the amount of total consumption that would be met by atomic power have been possibly doubled or even trebled.

The effect of that has been hardly to affect the margin of error of the estimates of fuel requirements; the relative proportions are such that if you treble in the next ten years the use of atomic power, you make scarcely a perceptible dent in the requirements for oil. After all is said and done, we had better find ways of insuring that the oil gets there.

I think the real answer to your question, as Mr. McKinney said, is that you will have to look at it country by country, and certainly in the first instance those countries that have available at some reasonable economic cost the materials with which they can have not only the fuel that they require, but some additional degree of security in their delivery. They will certainly want to develop those.

I have already mentioned that the search for oil is now almost universal. It is only held up in one or two countries by the actions of the very countries themselves. Similarly, I assume the search for uranium is just about as universal. The important thing that these underdeveloped countries have to consider is that the installations for using the various forms of energy are all extremely expensive. The problem of finding the investments necessary to secure power in any of its forms for any of these developing economies is very great. And so far, I think that

the competition gives the conventional source of fuel something of an edge on the atomic. As time goes on the engineers and physicists will undoubtedly tend to equalize that.

I am afraid that I am not as optimistic as Mr. McKinney that the atom is going to be a source of cheap power. I think there is still going to be competition among these various sources.

The only other thing I would like to say is this: If we have any kind of a relatively peaceful world, most of these things will ultimately be settled by economic forces rather than on any other basis. I don't think very many countries can afford the extreme course of being purely nationalistic on internal sources of energy or on any of the other factors important in their economy.

In the short run, the failure to have that sort of peace will cost us and everybody more money. Whenever you distort the natural economic way of doing a job, it costs more.

I don't know whether that answers your question.

MISS BURSEMAN: It does, it is very helpful. We shouldn't like to leave the impression, should we, that hydroelectric or hydro-electronic technology is all outmoded? You aren't leaving that impression.

CHAIRMAN MACMAHON: The Chair questions whether that implication is present in what has been said. The Chair ventures to ask a question. He got the impression, while Mr. Collado was talking, that incidentally he was removing, for the Chair at least, some element of inconsistency on a matter of relative detail between his original presentation and that of Mr. McKinney.

There seems, however, to be in the end some difference in the estimate affecting costs, and therefore time. I don't know, Mr. McKinney, whether you would like to say just a word before we close on that.

MR. MCKINNEY: Just a couple of comments.

I agree with Mr. Collado very much. But I should like to point out again that we must look at it country by country. The steam power plants being put up in Japan are being put up at a cost ranging from 14 to 18 mills per kilowatt hour, so if we can generate power at 12 mills, it would look pretty good. But it would be very different in Detroit, Michigan, where we generate power at 7 mills.

With respect to hydroelectric power, economic sites are just about exhausted in the United States. They are just about exhausted in most Western European countries. Of the total

energy supplied by mineral fuels and water power in the United States, approximately 4 per cent comes from water power.

Since we have just about exhausted our hydroelectric potential, we must look toward oil, coal, and nuclear power in the long run. And I hope we can look forward toward thermonuclear power.

CHAIRMAN MACMAHON: We would like to have a word from you on that, sir.

MR. COLLADO: May I say two or three things that relate to this?

First of all, I think that we in the oil industry at least are delighted and somewhat relieved that the atomic people are coming into the picture, because the problems that we have been looking at in doing the job of supplying energy requirements in 1965 or 1975 have been frightening to us.

The increases in energy and, as I said earlier, the degree to which they seem to be falling on oil rather than on earlier conventional sources gave many of us a great deal of concern as to the magnitude of the job to be done.

I think there is so much to be done here that atomic power and oil can very profitably share in the job, and each will find plenty to keep it more than busy for a long, long time to come.

Secondly, we have a little further thought that I think is completely consistent with Mr. McKinney's thoughts. I may say on that first point I think that all of these things are going to be very costly, and that there will be a certain tendency for equalization in costs as we work our way out of this. But I think the total job is so vast that we are going to devote all of our energies and all of our investments to producing reasonably priced energy in whatever form.

I agree very much with Mr. McKinney's earlier remarks that not only does the atomic development provide power as such—in some respects that may be the most important, in other respects it is one of the simpler, parts of the matter—but the use of radiation in all kinds of processes may very well lead to tremendous further developments not only in the use of atomic methods but also in the very use of hydrocarbons and other raw materials.

The Jersey Standard Company is spending quite a lot of money in a radiation laboratory, seeing how by the use of radiation it is possible to alter the molecular composition of hydrocarbons, and produce not only the conventional fuel and other products you associate with oil, but all sorts of raw materials for industry. Oil is already one of the large chemical industries and

one of the large sources of a great many things that go into all plastics and synthetics, and a great many other products.

The other thought we have associated with this is that with the development of a new and, we hope, fully competitively cheap form of energy, the economic development of the world will undoubtedly be greatly stimulated, and we know that that will increase all manner of demands. I think many of those demands are going to lap back into the petroleum type of uses such as I have just mentioned, conventional transportation uses for which, so far at least, atomic power has not suggested itself as being most readily adaptable.

CHAIRMAN MACMAHON: In bringing this meeting to a timely close—timely although it is clear that questions and comments would still be forthcoming—I shall not thank you for your patience, for patience has been unnecessary with these papers and with interesting questions. I shall thank you in the name of the Academy for your participation in this Spring Program.

The meeting is adjourned.

PART III

THE MIDDLE EAST

INTRODUCTION

LEWIS W. DOUGLAS, *Presiding*

Former Ambassador to the Court of St. James'
President, Academy of Political Science

MEMBERS of the Academy, and its Guests: In the name of the Academy I extend to you a very warm welcome and an expression of gratitude for your presence here this evening. In behalf of the Trustees of the Academy, I should like to thank those contributing so much to the discussions that were held during the morning session and during the afternoon session. The morning session was devoted largely to internal problems of considerable significance. The afternoon session was devoted to international questions of perhaps even more than significant meaning.

If I may very briefly give you the background of the evening's discussion, I will make the observation that probably never in modern history has the world experienced such a widespread and profound revolution as during the course of the last fifteen years. The difference between evolution and revolution is a function of time. During the course of the last decade or decade and a half, I suppose that there have never been in the annals of the human race so many profound changes—economic, financial, social, political, philo-

sophical. Over all of these changes there is cast the shadow of the most extraordinary migration of military power that modern history records. It is against this background that the evening's discussion of the Middle East has been set.

It was our original design for this evening to welcome His Excellency, the Ambassador from the State of Israel, and to welcome equally a representative from other countries in this area which reflects, so clearly, the revolution that has taken place throughout the world. Unhappily, in a sense, previous engagements prevented them from accepting this invitation. But very fortunately for us, another person has accepted our invitation. He will speak of the long-term problems in the Middle Eastern area.

He has a great knowledge of these problems. He himself has occupied many important posts in the government of the United States. He has been a Governor of Connecticut. He has been an Ambassador to India, where I think it is fair to say he provided the very bridge of which he speaks, the bridge of understanding between the East and the West, as few other Ambassadors have provided.

Mr. Chester Bowles, I introduce to you, and I introduce you to him, a very distinguished American, a person who has served his state, his country, his nation, and the world, with great distinction. Mr. Bowles! [Applause]

LONG-TERM ISSUES IN THE MIDDLE EAST

THE HONORABLE CHESTER BOWLES

Former Ambassador to India and Nepal

Former Governor of Connecticut

LADIES and Gentlemen: I am glad to meet with you tonight. Yet I admit that I feel subdued in the face of such a formidable subject—long-term considerations in the Middle East. Short-range considerations are difficult enough. Still my subject has its brighter side. At least I do not have to come up with an answer on the Suez problem. Nor do I have to solve the conflicts in the Gulf of Aqaba or those which grow out of the Northern Tier.

In the last six months we Americans have gone through a series of topsy-turvy experiences in the Middle East. We have seen our government voting in the United Nations with our adversary, the Soviet Union, against our old Allies, Britain and France, to support the claim of a military dictator, Nasser, against Israel, which is generally accepted, I think, as the most creative and democratic country in the Middle East. Those who have had charge of our policies have not had an easy time of it. They have been dealing with extraordinary, new situations and attempting to cope with forces that we are only now just beginning to understand. It is not strange, perhaps, that grievous errors have been made.

My purpose here tonight is not to rehash these errors, but to see if we cannot learn from them; above all to set the problems of the Middle East in a world perspective.

The Middle East, as everyone knows here so well, has always been a tinderbox, even in the days before the scramble for oil. As the crossroads between Africa, Asia and Europe where so many strategic interests and forces converge, this was inevitable.

In the beginning of the modern period, as now, the Russians were the major outside force attempting to press into this area. For many generations this pressure was neutral-

ized by a combination of tough British diplomacy plus the striking capacity of the Indian Army, with its headquarters at New Delhi.

In 1892, one of the greatest of British colonial administrators, Lord Curzon, put British Middle Eastern policy into these blunt words: "I should regard the concession by any power of a port on the Persian Gulf to Russia as a deliberate insult to Great Britain, as a wanton rupture of the status quo, and as a provocation to war."

Later in the Kaiser's dream of a Berlin-to-Baghdad railroad came similar pressure from Germany.

In November 1940, when Stalin sat down to do business with Hitler, the Russians stated their post-war objectives clearly. "Our territorial aspirations for the future", they said, "center in the direction of the Indian Ocean and the Persian Gulf." Following the war, the Russians returned to attempt to press into Iran, Turkey and Greece. This time they were blocked by the firmness of an American president.

Now we again see a refocusing of Soviet interest on this key area. The reasons, I believe, are obvious. In Europe, East as well as West, the Russians have failed dismally in these last few years. The extent of their failure in Poland and Yugoslavia must be seen first hand to be believed, as I discovered on a visit there this past winter. Following the war Soviet political and economic power was never able to move beyond the areas conquered by the Red Army. Today it is Soviet troops alone that enable the Kremlin to maintain its political and economic position in East Europe.

The leaders of the Soviet Union have been made abruptly aware of the extent of their European failure. Yet fortune has been kind. Stretching out before them in Asia and Africa they now see one of the most extraordinary opportunities that any ambitious Power has ever faced. To assume that they will turn toward more peaceful ways as long as this opportunity exists is, I am afraid, an illusion.

Here are something like a billion people—most of them poor, hungry, illiterate, frustrated and—most explosive of all—angry at the West which they believe has treated them as inferior over the years because of their race and their color.

As the Russians look at this vast, rich and turbulent area, it must surely create in their minds new hopes for the future. If Asia and Africa could be associated with Moscow, the most massive political and economic pressure could be brought to bear on the West.

With her own resources and with those of South America and Canada, America and her neighbors could live indefinitely at a high level of expanding prosperity and security. But the growing industrial power of Europe in this next generation will also consume raw materials at a rapid rate and those resources can come only from Asia and Africa. If they can be denied to Europe, the Kremlin may achieve, indirectly, the objectives which it has failed to win by a more direct approach.

Stalin saw this possibility clearly. Thirty-five years ago, taking his cue from Lenin, he said, "The back of the British will be broken on the Yangste, the Ganges and the Nile." It would be strange indeed if the present generation of Soviet leaders did not also see this opportunity, understand it, and attempt to grasp it with both hands.

It is my conviction that there can be no meaningful negotiations for a long-range peace—the kind of peace that we all hope and pray for—until the Soviet Union becomes convinced that this opportunity is beyond its reach. And right now, the Soviet Union is convinced that the world of Asia and Africa will fall into its lap, if not by its own skill, at least by our ineptness.

It follows that we must demonstrate to the Kremlin, and, even more important, the people of *Asia and Africa* must demonstrate to the Kremlin, that this Stalinist goal is a dead-end street just as the "mission" of the Czars was a dead-end street, and that peace and a decent future for all mankind can be achieved only if the Soviet Union gives up its dreams of world domination. Obviously this will take a lot of doing.

The Middle East appears particularly appealing to the Kremlin because there all the problems of Asia and Africa seem to come to a head. Here, in great abundance, is a single commodity—oil—which is essential to the industrial growth and development and security of Europe. For a

while Europe can make do with oil from the Americas, but not indefinitely.

There are promising new oil prospects in the Sahara and perhaps also in Nigeria. There are new oil fields in Canada. But twenty years from today Western Europe will be using three or four times as much oil as it is using today, in addition to its new nuclear program. The bulk of this extra oil must come from the Middle East. By shutting it off, the Soviet Union could bring such pressure to bear that Europe might ultimately be forced to accept Moscow's dominance in world affairs.

In the Middle East the Soviet Union also sees the traditional gateway to Asia. By creating a powerful position there the Soviet Union could bring pressure to bear on India such as the Czars dreamed of in their long struggle against the British. This gateway also leads to Africa. It is the back door into Europe.

In the Middle East, moreover, the Russians find the kind of economic and political conditions which play most directly into their hands. Here is intense nationalism. Here are frustration, poverty, illiteracy and the deep-seated uncertainty that drive people into revolution, into change for change's sake to wipe out the hated *status quo*.

Also in the Middle East the Kremlin sees an opportunity to move aggressively into the underdeveloped areas with the minimum danger of running headlong into China. This is a factor many of us overlook. In South and East Asia Soviet aspirations and those of China may someday come into conflict.

To those who warn the Soviet leaders, "Look out. Stalin once helped build Hitler into a colossus, and you know the result," there is a simple answer: Arab nationalism and German nationalism are quite different propositions. In Hitler, the Germans had more than a man of supreme skill and ruthlessness. Back of him was the best army in Europe and one of the most productive industrial nations. If a nationalistic Arab colossus is ever brought together under a single leadership, the Soviet leadership knows that it will have feet of clay.

To the Kremlin, therefore, the Middle East is a most tempting opportunity. It is not surprising that the Soviet Union and its satellites are vigorously taking advantage of it. Hungary is now building new bridges across the Nile. Bulgaria is working on the development of Alexandria Harbor. The Poles are working on the development of a steel mill in Egypt. The Soviet Union has promised Egypt a nuclear laboratory. China has become the biggest single customer for Egyptian cotton.

Now let us consider America's interest in this area. What should our objectives be?

They can, I believe, be simply stated—and that is about the only simple thing about them. We would like to see this area left open to the world. We would like to see its oil resources available to all those who would pay a fair price. We would like to see the Middle Eastern peoples—Arabs, Turks, Persians, Kurds and Israeli—create stable and satisfying communities and nations.

Some people ask, "Why do we worry about the availability of Middle East oil? Where are the Arabs going to sell their oil if they don't sell it to Europe? Certainly the Russians can't buy it."

This dangerously underestimates the illogical fanaticism which often characterizes the new raw nationalism of Asia and Africa. I am reminded of a broadcast a year ago over the Voice of the Arabs from Cairo. "We must no longer allow the crude oil to go to our enemies and the colonizers. We do not want United States dollars or British crowns. Oil is our wealth. Oil is for the Arabs." The broadcast might have added that oil has been for only a few Arabs, not all Arabs, and Egypt has never had her share of it. The blindness of such nationalism to its own long-range interests is a force we should never underestimate.

We Americans have worked to try to cope with these new forces. But we have had so little background, so little understanding. Inevitably perhaps we have been reluctant to assume the great responsibilities that have been suddenly thrust upon us, nostalgic for the days when such questions were handled by others and we could go about our business in peace.

Yet we know that we cannot draw back. So we have been seeking some reasonable settlement of the Suez crisis. We have built up the Northern Tier alliance against the possibility of a Soviet ground force invasion from the north. We have tried to work with those Arab states which would work with us and to frustrate in whatever way we could those who have worked against us. We have tried, above all, to prove to the people of this area that we are their friends. We have appropriated several hundred million dollars for economic assistance and development, and some of it, at least, has been effective.

In the last two or three months the general situation has improved somewhat. Yet thoughtful observers agree that this is not enough, that the challenge requires a long-range outlook. Let us briefly examine the general lines of present American policy.

We are now pouring huge quantities of arms into the Middle East (as the Soviet Union did into Egypt and Syria), in the belief that this build-up of Iraq, Iran and Pakistan troops will help to keep the Russians out.

Many observers consider that any further addition to this military investment will be largely a waste of money. With this view, I am inclined to agree. The real power that will discourage Soviet attack here, as elsewhere, is the retaliatory power of the United States Air Force. Moreover, there is always the grave risk that these weapons will be used, not against the invading Russians, but against innocent neighbors—Israel, for instance, or India.

It will not be easy to resist pressures from our friends to provide still more arms to bolster their sense of power and confidence. Yet we have come to the end of this particular row. Further shipments, I believe, will do more harm than good. Because of its relation to the defense of Southeastern Europe, Turkey is an exception.

Our efforts to appease the undemocratic prejudices of our Arab friends are also open to grave challenge. For years many Arab states have not allowed Americans of the Jewish faith even to cross their countries by air. Many hundreds of American citizens have been taken off planes and sent back. We have accepted this humiliation with scarcely a protest.

Recently we made what I believe to be an even more unprincipled agreement. Presumably our air base in Saudi Arabia is designed to help keep Saudi Arabia free. Yet the new five-year agreement requires us to pay something like \$50 million for the right to participate in this "mutual defense". And part of the price asked by Saudi Arabia is that no American soldier of the Jewish faith be allowed to serve as part of our defense forces, and that no Christian chaplain shall wear the insignia of the Cross.

This is a heavy price—indeed we may say a humiliating price. I wonder if this sort of compromise with totalitarianism and fanaticism is leading us toward our real objectives—peace and the hope for something better for all of the peoples of this area.

There have been some gains in the direction of an uneasy stability in these last few months. Yet I wonder how transient they may turn out to be. The death of three or four friendly leaders could switch the whole situation against us overnight.

What then should be the direction of American policy? We must, of course, be prepared to defend the Middle East against any intrusion from the Soviet Union. We must be prepared to do so promptly and with all necessary strength. This means the use of the United States Air Force. We cannot afford to drift into a state of mind which prevents us from using the most effective weapons that we have available to defend this or any other critical area. The Eisenhower Doctrine commits us to the defense of the Middle East. This is essential. My one concern is that the Doctrine is not global.

Once Dean Acheson was criticized by his political opponents because he drew a line around the areas that we would defend *directly* in the Far East. The line did not include Korea which was a responsibility of the United Nations. Five months later the North Koreans attacked and Mr. Acheson's opponents said that by leaving Korea out of his publicized defense area, he had invited this attack.

Does our recent limited statement that we will defend the Middle East mean that we will not defend Burma from an

attack by Mao Tse-tung? Does it mean we will not defend Yugoslavia if the armored divisions of the Kremlin start moving toward Belgrade? We should leave the Soviet Union and China no grounds for doubt on such questions.

Our second objective must be to assure Europe and ourselves full access to the oil of the Middle East. Rampant nationalism may make this assurance difficult in some areas regardless of the Arab self-interest. Iran shut off its oil for three years. The Syrians blew up the pipelines out of which their own incomes come. The Egyptians closed the Canal.

What we need, therefore, is a stand-by supply that can be easily defended in an emergency. Kuwait, with its unlimited oil resources, its accessible location, and its friendly government and people, may best meet the specifications. If this is the case, we need more naval power in the Arabian Sea and the Persian Gulf than we have at present. We must also establish a means of transport which cannot be readily cut. We are building many large tankers, and many more are on the drafting boards. These tankers can carry huge quantities of oil around the Cape of Good Hope, or, half filled, through the Canal.

We should also explore other means. A major pipeline through the Gulf of Aqaba to the Mediterranean has been proposed by the French. There has been talk of a canal. A canal would be a difficult construction task. The cost estimate is a billion and a half dollars. But traffic ten years from now may require it anyhow and it could be internationalized and defended.

Then there is the question of Israel. The Arab states deny its existence.

There are many explosive border situations throughout the world. There is the division in Korea and in Germany. There are many who are not satisfied with the border lines of Europe. The Poles are not happy with theirs in the East, and Germany is resentful about her territorial losses.

All of these border disputes are, of course, potential sources of trouble. But the world has reached a point where it cannot allow such situations to get out of hand. A local blowup can lead straight to a nuclear war that could destroy

all of us. So I do not think we can accept the Arab statements: "We do deny the existence of Israel. Even though it was set up by the United Nations, we will take every means of destroying it."

Our non-Arab friends in Asia and Africa have a special obligation in this respect. In deference to the view of the Arab world it was decided not to invite Israel to the Bandung Conference in 1955. In succumbing to these pressures the non-Arab Bandung nations assumed a major obligation to use their good offices to ease the present Arab-Israeli impasse.

It is not enough for the Bandung Powers now to sit back and criticize the past errors of the West. They have outlined before the world a standard of morality to which they say all nations should subscribe. This places on them clear responsibility for forthright action.

Of the five Colombo nations which called the Bandung Conference, Burma is the only one that has established relations with Israel. The other four nations—India, Pakistan, Ceylon and Indonesia—have an obligation to try to help break down the wall of hatred which now exists so that the Middle Eastern people can live and let live. Neither they nor we can make one people like another people. But we must join in demanding that war be barred as a method of solving these disputes.

Finally we come to the heart of the Middle East problem—poverty, maldistribution of wealth, the frustrations that grow out of ignorance and illiteracy, and the explosive demagoguery among the leadership that attempts to divert the people's minds from their domestic troubles to foreign "enemies". How can we break through the barriers of feudalism and nationalism to help bring to these people the better life to which they are entitled?

Many Americans glibly assume that it is merely a matter of appropriating enough money for American economic assistance. Of course American economic aid will help. It already has helped greatly. I believe more must be made available in the years to come. But we should examine carefully the elements and forces that make orderly political growth.

You cannot produce a happy, well-adjusted people with money alone even though added investment does lead to rising output. Political stability requires in addition a sense of belonging among the people, a sense of participation, of growth, an awareness that their hard work is leading to increasing justice, that they, as individuals, have a part to play, that they are part of a society that is developing consistently, that is potentially good. Unless economic growth develops in such terms it may lead, not to stability, but to more political unrest, more frustration and more trouble.

We must provide adequate funds, of course. But we must also insist that these funds are spent constructively. There is a great deal of hard currency already available in the Middle East, if only it can be placed in positive channels. Something like \$1 billion annually is now flowing into the oil-producing nations of the Middle East.

If only 25 or 30 per cent of this sum could be put to work each year for the constructive use of the people, and if with it could come a breaking up of the great feudal land estates, we would light beacons of hope where now there is no hope. Then we would begin to see the sound kind of orderly development which alone can create peace, harmony and continued progress.

Many young Arabs come to our country from the Middle East to study. In our universities they learn about Jefferson and Lincoln and other great men who have helped create our own democracy. They go home fired with the hope that they can do something for their own people, only to find a deeply entrenched feudalism, often supported politically and economically by American money, diplomacy and tanks.

The problem is: How do we break through to reach the people? One promising proposal is for a Middle East Development Corporation, perhaps as a part of the organization of the World Bank—certainly closely associated with it. Some Middle East oil money could be invested in this corporation to help develop the whole area. To this fund we could make our own contribution and offer our own technical assistance. It could not be accused of being an outside force. It would have indigenous roots and a vigorous, indigenous purpose.

I may add that Iraq is now putting aside something like 70 per cent of its oil revenue for internal development. This is a long step in the right direction. Exciting things are going on there. We must hope not only that the national income will increase but also that there will be increasing justice in the distribution of this income and greater participation among more and more people. This still seems to be lacking and it is essential if the people of this potentially rich and promising country are to become convinced that the future can be better than the past.

A regional program of this kind cannot be put together easily. It will take time. But at least let us begin now to lay it out on the drawing board to see how it might work. Then we can present positive and constructive proposals for dynamic, grass-roots growth among the people.

Such proposals may at first be brushed aside. But we will have created in the hearts of many hundreds of thousands of Middle Eastern people the vision of a more positive kind of future. At first they may only grope toward it uncertainly but ultimately it may be grasped firmly and confidently perhaps by new leaders with more confidence in what democracy can do.

In Asia and Africa in the coming years we face the acid test of American policy. Our task is to help the people of these great continents to demonstrate their determination to be free, their determination to grow in their own way, to build up their own countries and to create something worth defending. Where that kind of growth exists, communism has no chance.

Once the Soviet Union becomes convinced that it cannot control this vast, rich area and tie it to Moscow and Peking, there will be, for the first time, valid hope for peace. Then, and only then, can we expect to negotiate a settlement that is lasting and meaningful.

We Americans cannot win Asia nor can we win Africa. What we can do is to encourage the indigenous and powerful local forces that may together create a positive future. It is time that we went to work. The future here, as elsewhere, will demand a great deal of all of us. Most of all will it demand a new measure of human awareness and a new under-

standing of the fast-shrinking new world which we share, for better or for worse, with the Russians and Chinese.

As a small boy I was shown the great coastal defense guns on our Atlantic seaboard. My father told me that they were to keep the British at a distance. Later we tried to build military lines in Europe to keep the Germans at arm's length. Now with our Northern Tiers and SEATO alliances we continue our efforts to set up modern Maginot lines to keep other people away so we may live in happy isolationism.

In our modern age such walls can give us only a limited security. Ideas skip easily over them. So do trade, economics and politics.

A powerful military defense is essential to discourage Soviet military aggression. But it will gain us nothing for the long haul unless we cultivate behind these defenses political and economic ties based squarely on the ideas that lead men to work and sacrifice for freedom.

To achieve a balance between armed strength and moral strength, to learn to work effectively with others, to understand the frustrations that grow from poverty and discrimination, never to lose contact with our own great traditions—this is the challenge. And nowhere is this challenge more formidable or potentially more decisive than in the rich, turbulent area between the Ganges and the Nile. [Applause]

REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: Mr. Bowles, we are very grateful indeed to you for having appeared tonight, and having delivered this extraordinarily interesting and provocative address. You raised a series of questions which it is not my purpose at the moment to define, but you have placed your finger on one very fundamental characteristic of a revolution through which the world has been going and in which the world is now. You have placed your finger on the spirit of nationalism. Nobody perhaps has defined this better, more eloquently and more dramatically than Keynes when he called it "The Serpent to our Paradise". We are very, very grateful to you, sir, for appearing this evening and for expressing your views.

Our next guest is a very distinguished man indeed. He first saw the light of day in Cape Town where the sun rises and sets not as it does north of the Equator. He is a graduate of Cambridge University. He was a member of the staff at Queens College, at Cambridge University.

All of you have perhaps seen "My Fair Lady". If you have not, I commend it to you. I am not giving an advertisement for this particular musical comedy, but there is a line that Rex Harrison recites, "O, why can't the English learn how to speak?" Well, our next guest is a great example of how the English language should be spoken. He speaks it fluently. He has been a distinguished servant of his country. He has served the world well, and we, the members of the Academy, are most grateful to you, Your Excellency, Ambassador Eban, for appearing tonight and for your willingness to address us and to talk with us about the elements of peace in the Middle East. [Applause]

THE OUTLOOK FOR PEACE IN THE MIDDLE EAST

HIS EXCELLENCY, MR. ABBA EBAN

Ambassador of Israel to the United States
Permanent Representative of Israel to the United Nations

AMBASSADOR Douglas, Ambassador Bowles, Distinguished Guests, Ladies and Gentlemen:

It is a moving experience for me to rise before this distinguished assembly to discuss a subject which has commanded the intense preoccupation of our generation in recent weeks. It is a special pleasure to rise in the congenial atmosphere created by Ambassador Douglas' courteous and cordial words of introduction. I was consoled by his words. We diplomats generally receive even less sympathy than we deserve. Yet we are, on the whole, a beneficent and innocuous group.

In Washington a few weeks ago it was my fortune to address a class of young university men who, out of some obscure impulse of self-sacrifice, were attempting to become diplomats. I could only address to them, out of the depths of my compassion, three words of counsel which are my own guidance and consolation in times of stress.

First, "Learn many languages, for it is by language that men and nations learn to conceal their thoughts."

Second, "Learn the joys of mobility; for in the new techniques of fueling in mid-air, we Ambassadors and our Foreign Ministers will probably never touch ground at all."

Third, "Approach all international questions with an open mind, unless you aspire to service in the United Nations, in which case the need is to approach all international questions with an open mouth."

Now, if anyone needed to be reminded of the intricacy and complexity of the diplomatic art, there is no theme more compelling than that on which I address you tonight. The subject is, the prospect of peace in the Middle East, enunciated, candidly, from an Israel point of view. The unfortunate fact that all my Arab colleagues are simultaneously more

busy than I deprives our discussion of a certain equilibrium. But what I shall say reflects the viewpoint of Israel alone. There could be nothing more useless than the representative of a country attempting to be objective between his own cause and the wrong cause.

In recent weeks, the mind of nations has been arrested by the quest of Israel for security and peace. When we talk about the prospect of peace in the Middle East, we mean the reconciliation of the sterile and grievous conflict between Israel and the kindred peoples of her region. There are many points of tension in the area, but this Arab-Israel conflict is the real center of turbulence, from which all other aspects of the Middle Eastern crisis derive their potency and danger.

At the center of this crisis there stands the establishment of Israel nine years ago as a new unit of political and cultural independence. Few events in the history of our generation have exerted such a strong appeal on the conscience of men as the resurgence of Israel after two thousand years of dispersion and exile.

So many circumstances come together here to form an episode of unusual dignity and scope: The journey of the Jewish people across history for three thousand years, bearing the great message of order and progress in the universal design; the martyrdom of that people under the heel of despots throughout "the dark night of exile"; the unlimited anguish which fell upon it in the sequel to the Second World War, when it was engulfed by the most monstrous tidal wave of grief and havoc which had ever swept over any family of the human race; the sudden recuperation of this people at the lowest point in its agony through the renewal of its sovereignty in its original home; the establishment of a center of free institutions in a region where liberty has few other bulwarks; the revival of mankind's oldest tongue and culture which, more than Greece and Rome, have determined the spiritual evolution of all succeeding generations; the opening of gates of home and freedom to hundreds of thousands of its kinsmen, the remnants of European tragedy and of squalor and discrimination in Asia and Africa; a unique social and

cultural adventure, to create out of diverse elements converging from all corners of the earth the unity and discipline of a new nation in the image of its ancient past; and the struggle for security and survival against the relentless hostility and challenge of the neighboring world—these are all milestones in Israel's modern story. These events, crowded into the first decade of our statehood, have given these years an unforgettable stature among all the epochs of our people's long history.

There are many aspects in this performance which would deserve the attention of historians, sociologists and students of culture. For modern Israel is not merely a problem. We do not think of ourselves exclusively as a function of our relations with the neighboring world. There is something here of intrinsic interest in itself as the unfolding of a great and mysterious historic design.

But it is the relationship of Israel with the Arab world which engages attention far more than any other aspect of our nation's life. It is by reason of that tension that the Middle East is now the most explosive center of potential conflict in the world crisis.

The history of Israel and its relationship with the Arab world is the story of two nationalist movements in conflict.

The Middle East in our time is a scene of triumphant emancipation. Four decades ago, the whole of this region slumbered beneath foreign rule, either of the Ottoman Empire or of the Western colonial Powers. As far as the Middle East was concerned, the French Revolution might never have happened. The great impulses of libertarianism which swept over Europe and America in the eighteenth century had left the old feudal structures of the Middle East untouched. Similarly as far as the Middle East was concerned, the Industrial Revolution might never have occurred. The advances in science and discovery which expanded human welfare in the nineteenth and twentieth centuries had no impact upon the Middle East, where society continued to languish and fester under the old backwardness, apathy, squalor and exploitation.

Of a sudden, without any transition, the two world wars

aroused the Middle East from its torpor, injected the nationalist ambition into the hearts of its peoples, and set afoot a swift program of national liberation which has now almost completed its course. This nationalist impulse beat up against the citadels of imperial and colonial rule. Everywhere the walls were breached and brought to the point of their present collapse. The future now belongs to resurgent nationalism and in this progress the central feature has been the triumphant march of the Arab peoples toward their independence.

In Asia, where, a half-century ago, not one single free Arab or Moslem lived in conditions of political liberty, there are now twelve sovereign Arab states, extending over a continental expanse of four million square miles, in which fifty-six million members of the Arab nation live under their manifold sovereignties. This is the lavish good fortune which the Arab nation has inherited. Never since the golden days of the Caliphate has the Arab people commanded such power and opportunity as has now been brought within the powers of its hands.

Any constructive imagination would be awed and inspired by the affirmative opportunities which now open out to this national leadership in the moment of its triumphant advance. Think of the vast territorial expanse, the unlimited potentialities of mineral and natural riches which lie beneath its soil, the great rivers which flow, unharnessed, over its uncultivated valleys. There is authentic greatness in the material, cultural and political opportunity which now opens out to the liberated Arab nation.

Within a small corner of that huge expanse, in an area eight thousand square miles between the Mediterranean and the River Jordan, in a land once celebrated for its fertility but since languishing in erosion and neglect, another people has entered upon its inheritance of freedom. Israel's domain is about 1/400th of that in which the Arab people has been liberated within the past few decades.

Let us fully understand that national liberty in the Middle East has not been the monopoly of Israel. The position is not that one people has been favored with an emancipation

denied to others. National liberation has in most lavish measure been the portion of the Arab world; and it is only in these relative terms of international equity that this controversy can justly be examined. The comparison between the vast expanse of Arab liberation and the meager portion of Israel's sovereignty determines the moral issue of Israel's right to existence.

Our own attitude is clear. We do not envy or begrudge the neighboring people its huge inheritance. But we cannot apologize for our eight thousand square miles. It is the least debt which history owes us. This planet passed from barbarism to civilization when it was touched in Israel by the lucid radiance of the Hebrew mind. Would it not have been an indelible disgrace to the human conscience if a world which had rightly liberated the Arab people in its continental Empire had not been able to carve out this tiny notch of territory to be the sanctuary of another people in the hour of its greatest woe?

There was a serious danger, in the immediate sequel to the Second World War, that every culture and civilization would be established in free political and social institutions—except that culture and civilization which had bequeathed to mankind the original message of its own redemption. From this glaring paradox the community of nations was liberated by the modest but cherished opportunity of freedom which it created by Israel's emergence to statehood.

The essence of our problem is the rejection by Arab leadership of Israel's equal right to statehood. The idea is rejected, even though the idea has become a fact and the fact has become part of the law of nations—which could be abrogated only by violence and illegality. Nonrecognition of Israel's essential statehood is the central paradox out of which all other elements in the Arab-Israel crisis arise. That crisis recently reached a point of explosion of which the echoes are only now beginning to die away.

The Sinai Expedition symbolized this paradox in Israel's quest for security. Stretching back far beyond that expedition lies the unique and somber story of a small people, subjected throughout all the years of its national existence to

a furious, implacable, violent campaign of hatred and siege for which there was no parallel in the modern history of nations.

It may be difficult for other peoples which enjoy normal security far away to understand what has been involved for Israel in this pattern of belligerency. Surrounded by hostile armies on all its land frontiers, subjected to savage and relentless hostility, exposed to penetrations, raids and assaults by day and by night, suffering constant toll of life among its peaceful citizenry, bombarded with threats of all neighboring governments to accomplish its extinction by armed force, overshadowed for the past year by the menace of irresponsible rearmament—embattled, blockaded, besieged, Israel alone among the nations faces the problem of its physical survival anew with every approaching nightfall and every rising dawn.

In a country of small size and intricate configuration, the proximity of enemy guns became a constant and haunting theme. In short, it is a land where the normal pursuit of life became a challenge to the courage and valor of all its citizens. This belligerency was carried far beyond the beleaguered frontiers of our land. Geography has been parsimonious in its dealings with Israel. It has allotted to her the smallest piece of territory within which any sovereign state can maintain itself. But geography sought to compensate for that parsimony by giving Israel other advantages—a long Mediterranean coastline and access to two oceans.

This opens out the prospect of enlarging the limited potentialities of the land by reviving the maritime traditions of our Hebrew forebears. We have looked well at the small countries of Europe which have, by their maritime enterprise, compensated for their restriction of territorial space. But even as we contemplated this vision, belligerency stretched out its hand to block our access to two international waterways. The aim was to cut off Israel, as with a pair of scissors, from any access to two thirds of the world.

You are familiar with the circumstances which recently gave this problem its broad international scope. In the autumn of 1955, the shadow that began to lengthen over

every peaceful home in Israel became darker and more intense. It was no longer now a question of turbulence on this or that frontier; the issue was one of total survival. Two events occurred in 1955: the development of a triumphant dynamism in the national movement led by the Egyptian dictator; and the reinforcement of that dictator by the intervention of one of the great military Powers through the lamentable arms transaction of 1955.

Nasserism, brilliantly concerting the means for its own expansion and lacking the independent strength for that purpose, reached out into Eastern Europe to establish the coalition between militant Middle Eastern nationalism and the totalitarian forces influences of Europe.

Our danger, already great, became greatly enlarged. This was the spectacle which Israel confronted in those solemn and tense days of last summer. Twelve minutes' flying time from Haifa, ten minutes' from Tel-Aviv, fifteen minutes' from Jerusalem, there lurked the destructive power of our adversary, fully supported by one of the great Powers of Europe, and openly threatening our extinction as the next on his list of adventures.

Since then, the world has been engaged in an urgent and concentrated examination of events in the Middle East. That momentum has been defined by three decisions recently taken by the government of Israel.

The first was the decision in October 1956 to resist Nasserism before its threat became irresistible, and to reduce its military menace.

The second decision was taken a few months later—to maintain our positions in Gaza and at the entrance to the Gulf of Aqaba, pending the receipt of international assurances for preventing belligerency by land and by sea.

Third was the decision on March 1 to withdraw from both those places in consideration of assurances by the United States and others for the maintenance of free navigation in the Gulf of Aqaba and for concerted resistance to belligerency, whether from Gaza or elsewhere.

Each of these decisions—the one to resist, the one to stand fast and the one to withdraw—was a hard decision. Each re-

quired courage. Each was controversial. But each of them was sustained by the democratic and sovereign consent of the people of Israel. Our people believe that each of these decisions was the right decision taken at the right time and in the right way, and that events in the Middle East might open out toward more hopeful perspectives in the light of them all.

I should like to say something about the rectitude of those decisions in our eyes and to discuss precisely what we envisage in their aftermath.

The first decision, the decision to resist, was taken in the sentiment of imminent peril. For all throughout the world who might have lacked comprehension of that decision, we can offer one suggestion: All who are agitated by this issue should simply try to identify themselves with our position.

Imagine that upon the border of your country a dictatorship arose and became the predominant military Power in your continent; that it imported tanks, guns and planes from the greatest military Power of Europe; that it seized your ships in international waterways and prevented you from having access to two thirds of the world; that it sent armed groups into your country to murder, plunder and kill what would in comparative terms amount to 40,000 people; that it declared itself to be in a state of war with you, and avowed that your physical extinction was the main element of its policy.

Unless you can say in complete serenity of conscience that in your case such a threat would have been allowed to grow, and grow until it became irresistible, then there is no room for dogmatic repudiation of Israel's choice, and the issue becomes one of practical judgment alone.

After the successful resistance there came the second decision. In the process of withdrawing, the decision was made to hold the withdrawal at two residual points, until it became clear that the world community would insure an absence of belligerency in the two most sensitive areas, the Gulf of Aqaba and the Gaza Strip.

The Gulf of Aqaba is by now the most celebrated piece of water in the world. The Gaza Strip is certainly the most re-

nowned, although not, perhaps, the most prepossessing, piece of territory in the world. But beyond their intrinsic bearing on our security—which is very great—they are symbols of belligerency by land and by sea.

The issues which we felt to underlie this crisis have often been described. But let me summarize them briefly, for we still live in the sequel of that struggle. The problem of the Gulf of Aqaba is much more than the question of a stagnant piece of water fast becoming transformed into an international maritime artery.

Israel is the only country in the world except Egypt which has territory on the Red Sea and on the Mediterranean. This opens up for our country the vision of becoming a bridge across which the commerce of nations shall flow freely from the Red Sea to the Mediterranean, from the Eastern to the Western Continents, from Asia and Africa on the one hand, to Europe and America on the other. This prospect gives us hope of securing a certain weight in the geographical calculations of our times.

Israel matters to multitudes of people throughout the world in imponderable terms of sentiment, in history, in religious and cultural associations, in deep and profound solidarities. But we have not mattered much in the grosser scales on which the material interests of nations are weighed. By forming this link between the Red Sea and the Mediterranean, we would secure a degree of geopolitical importance.

If that is a great vision for Israel, it also opens out a vision no less significant for the countries of Europe. By the development of this link across Israel, Europe would be liberated from exclusive reliance upon the Suez Canal as the only bridge between the Red Sea and the Mediterranean. No longer would the potentate holding the Suez Canal possess life-and-death power derived by seizing other countries by their jugular vein. Thus a major source of tension between Egypt and Europe would be removed by breaking the monopolistic character of the Suez Canal. The artificial dependence of so many countries upon a single artery for the passage of vital commodities would be eliminated.

There is, therefore, an international as well as a national

interest which nature has placed within the custodianship of Israel. But all these visions depend upon the observance of law in the international highways—upon the observance by Egypt of the international jurisprudence which makes the Gulf of Aqaba and the Straits of Tiran an international waterway open to free and innocent passage of ships of all nations.

A government of Israel which commanded the entrance to that waterway and then surrendered it to blockade and interception without striving to ensure that it would be handed over to free navigation—such a government would surely have disgraced its own historic mission.

In Aqaba we had an affirmative purpose—to achieve a free waterway. In Gaza we had a negative purpose, to avoid being killed. For three months the watchtowers were not manned by day and by night on the Gaza frontier. No longer were those who dwelt in the Southern part of the coastal plain or the Northern Negev gripped by icy paralysis each time a child was late from school or workers were tardy in return from their labors. Here the desire was simply not to return to the turbulence and tension of the previous era. The solution was to maintain the responsibility of the United Nations for the administration and security of that zone. Thus we came to the third decision taken in March of this year to liquidate these two positions, on the assumption—heavily supported by responsible governments which engaged their sacred honor and their pledged word—that international responsibility would be effective in securing free navigation in the Gulf of Aqaba and the absence of belligerency in Gaza.

You are aware of the initiative which the government of the United States took in these questions, especially the enunciation of the doctrine of international waters in the Straits of Tiran, and of its resolve, on behalf of ships of its own registry, to exercise free and innocent passage therein. The maritime nations which command the great bulk of the shipping of the world joined in an historic act of initiative.

In my concluding words I would speak to you only of the atmosphere created by this act of withdrawal. The act itself

was unusual. We saw the spectacle of a victorious people voluntarily renouncing the tangible fruits of its military success. The outstanding issues in the security pattern of the Middle East must be examined in the light of this withdrawal. While noting the gains achieved in Aqaba and Gaza, I should like to speak to you of one aspect of this question which now commands the center of our attention. I speak of the Suez Canal tonight in a mood of special disquiet. I fear that the next few days will witness one of the great historic transformations in world power. Something revolutionary is about to occur. And it may now be too late to arrest that immediate evolution.

For a long time, Egypt was a dependency of the West. Then she secured her rightful independence. Might it not be that, within a short time, the countries of Western Europe will become the economic dependencies of Egypt through relying upon the unilateral national control of the territorial power for the passage of their vital fuels and commodities?

If the Suez Canal, which at this time, and perhaps for some years to come, will be the sole effective link between East and West, passes under the unilateral control of Nasser, and if ships of nations pass through the Suez Canal by his grace, by his condescension and on his terms, then we shall have witnessed a chapter in the decline of Europe which no man of sensibility could previously have envisaged.

We will have seen the subjection of European economies, and therefore of European defense systems, to a single national control. Whether the people of Western Europe know it or not, at the moment when their vital commodities pass to them not by international right but by the sufferance of Egypt, they will have lost something precious and essential to their sovereignty.

The picture is more somber if we realize that a Europe dominated by Nasser is in large measure a Europe dominated by those forces in the world from which Nasser derives his main influence.

We have our critique—in which we are not alone—whereby we maintain that this need not have happened. Negotiating

opportunities of great strength were renounced. The British occupation was liquidated in 1954. Anglo-French occupation and the Israeli occupation in 1956 and 1957 were liquidated. Then the Suez Canal was cleared of physical obstacles by the United Nations. In each case there was no effective request for a reciprocal gesture by Egypt for establishing a firm international system in the Suez Canal.

Why the clearance of the Canal by the United Nations was not held in the balance against a reciprocal undertaking by Egypt for an international system is, in my view, the most perplexing of all. Is it conceivable that the United Nations will write a new chapter in the history of the Suez Canal by opening it to traffic and allowing it to remain closed to a member state? Can an international artery be cleared by the highest of international tribunals, and then be regulated in violation of international law?

This is the issue of principle involved in Israel's maritime rights in the Suez Canal. Surely you will say it is inconceivable that in a Canal cleared by the United Nations, any member state will be denied its rights. But this is something which might very well be happening. It is this uncertainty, this lack of confidence in the reliability of the Canal, which makes the utilization of all the alternatives important: the alternative of the Gulf of Aqaba, the alternative of the heavy tanker program, the alternative of developing new sources of oil outside the Persian Gulf, in Africa and on the American Continent—all the means of finding alternatives to the dependence of industrialized economies on oil brought through the Suez Canal. There is not merely a national but an international interest in the development of these alternatives.

The complexity of the problem invites us to consider the final and perhaps the most crucial question of all. There is now a stilling of guns in the Middle East. Might this not be the prelude for a more affirmative system of relations? Can there soon be peace in the Middle East?

I fear that there is much danger in confusing the wish for the thought. There is no objective obstacle to such a peace settlement. It is not that the Arab peoples lack territory or that Israel seeks any. It is not that there do not exist, in the

Middle East, the possibilities for solving all the problems bequeathed by this conflict, including the desperate refugee problem. It is not that there is a shortage of land or of water or of expanding labor opportunities whereby this manageable number of refugees could be accommodated within the awakening Arab East with an appropriate contribution by Israel herself. It is a small refugee problem in proportion to other refugee problems already solved. Therefore we do not have to look to the objective complexity of the problems, but rather to the absence of a will to solve them.

I fear that unless the initial problem of nonrecognition and belligerency is solved, none of the subsidiary elements of this conflict will find their solution. To give one example: to settle the refugee problem requires the utilization of water resources. The plan for the utilization of water resources which Ambassador Eric Johnston brought to us a few years ago requires interstate coöperation. But in fidelity to the Arab doctrine of nonrecognition and belligerency, this project—despite its beneficial effects on the economy of Middle Eastern states and on the refugee problem—is resisted simply because it involves interstate coöperation. Thus the nonrecognition of statehood, allied to the concept of belligerency, sets up a vicious circle which has so far frustrated every hopeful advance.

I am afraid that the answer goes back into the realms in which Ambassador Bowles engaged our minds so wisely before I arose to address you. The essence of the problem is the character of Arab nationalism. There are some, like Lord Keynes, who describe all nationalism as "the serpent in paradise". That is the extreme negative appraisal of nationalism. There are others who idealize nationalism, and consider that everybody in Damascus or Cairo or Tunis or Algeria who murders his Prime Minister is the spiritual descendant of Garibaldi and Thomas Jefferson, and that nationalism is a benevolent force that must always be right. This idealization of nationalism has grown up especially in relation to Asia in the past few decades.

Surely somewhere in between we must find a middle course. Let us not be numbered among those who would

oppose national movements because of certain failures in their methods or objectives. On the other hand, let us not close our eyes to the imperfections of national leadership in the Middle East.

The chief object of national leadership in our region has been the obsession with the external, institutional vision of nationalism. Everything is centered on the flag, the coin, the constitution, the parliament, the outward emblems of sovereignty. Men have learned that once these are achieved and the hated foreign domination liquidated, all the problems of the individual and of society will be solved. Then comes the awakening. The imperial colonial domination passes away. The new flag goes up on the mast. The old poverty and exploitation linger on unaffected, or sometimes tragically increased, through the replacement of colonial rule by the new national freedom. Men awake to find that a man can be politically free and yet lose the essence of his freedom in the throes of want.

We know that the institutional victory is not enough. Freedom will flourish only within those national movements which, beyond the external façade of nationhood, cherish a vision of a society and culture dedicated to affirmative purposes. We believe that an Arab nationalism thus dedicated would live at peace with the small state of Israel arising to restore its nationhood in such a small and modest area.

This is our advice to the opinion of the free world and to America at its head: Safeguard the Middle East as a whole against external aggression, and thus give us time for a peaceful evolution to move forward. Establish strong, binding guarantees against intra-regional aggression. Emphasize, if you will, in your dealings with our region, not the military concept of assistance, but economic and social assistance, the building of societies which will have the will and capacity to defend themselves to the ultimate point of sacrifice and resistance. Reduce your dependence upon the Suez Canal and upon Persian Gulf oil, for by excessive dependence you will not have that equality which is a necessary function of your relationships with our region. Above all, proclaim the full glory of free institutions, of democracy as the highest expres-

sion of a man's social personality. Uphold, preach and advocate democracy with as much militance, fervor, conviction and pride as the opponents of democracy bring to the advocacy of their heresies.

This is the only counsel that we can offer, and it is the counsel not for a short solution but for a long and weary journey. The road stretches out before us long and hard. But, speaking for Israel, I can say that the prize is worthy of attainment and almost beyond compare: To restore the full cycle of Israel's broken nationhood; to recapture Israel's roots in the most sublime and enduring of all the historic cultures; to gather the scattered debris of the most ancient of peoples, and quicken it with energy and compassion into a new birth of life; to establish a strong economy as the shield of a vigorous material and spiritual culture; to console the wounded heart of our people for the toll of bereavement which has tortured its memory and experience in recent decades—to do all of these things is by the grace of history within the power of our hands.

This is not an enterprise for a small generation. It is a great drama conceived in majestic terms and acted out in the sight of eternity. If we can play our part in its unfolding course, then future generations will rise up and call our memory blessed. (Applause)

REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: Your Excellency, you are a talented and skillful master of the language. We are extraordinarily grateful to you for having appeared here this evening, and for having delivered this extremely moving address.

You, sir, have said that the language of a diplomat is designed to conceal thought. I think it was Carlisle who said that language was the dress of thought. Now, if one attempts to accommodate your observation about language with Carlisle's comment, one is confronted with a dilemma: Is language translucent or opaque? I submit, sir, that you are a contradiction of your own observation, for your language has revealed translucence of the thought, thought that is as clear as crystal, and as crisp as bacon.

You have made some observations about nationalism. You have observed or commented upon the benevolence of nationalism and the evil influences when carried to an extreme. Without invoking semantics, I think it is probably fair to draw the distinction between nationalism and patriotism. This of course may be again merely the use of words, but that the world is engulfed by these great waves of nationalist feeling is a fact which no one can deny, and our problem here, as you have so well put it—and you, too, Ambassador Bowles, have so well stated—is to recognize that we are living in a revolutionary period and that it is our responsibility to accommodate ourselves to these revolutionary forces that are breaking the old order into little bits.

Again, sir, may I thank you on behalf of the Academy for being with us tonight. And, Chester, may I thank you, too. On this note of gratefulness may we call the meeting of the Academy to an end.

THE ACADEMY OF POLITICAL SCIENCE—75 YEARS

LINDSAY ROGERS

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THE year 1955 marked the Seventy-fifth Anniversary of the founding of the Academy of Political Science, but seventeen years before 1880 the Academy had been a gleam in the eye of the young man who was to be its father. The young man was John William Burgess, a nineteen-year-old Tennessee youth who had fled from his home to escape conscription by the Confederates and had enlisted in the Federal Army. The place in which he found himself was, interestingly enough in view of a wild enthusiasm of the anniversary year, not far from an old fort that bore the name of a famous hunter who had erected it: "Davey Crockett's Fort".

Burgess told the story at a Convocation in his honor on the occasion of the fiftieth birthday of the Academy and of the Faculty of Political Science of Columbia University. Distinguished in appearance and still erect at 86, Burgess was the more impressive because one arm was in a sling; the previous afternoon a taxicab door, hastily slammed, had crushed his hand. To a rapt audience Burgess spoke in part as follows:

On the night of January second, 1863, there stood upon one of the outposts of the hard-pressed right wing of the Union Army in Middle Tennessee, a young soldier, barely arrived at his military majority, in a sentry box. I was about to say, stood alone, if indeed aloneness may be conceived with an angry heaven hurling its bolts of forked lightning followed by salvos of deafening thunder, pouring torrents of rain driven by hurricanes of wind; with hundreds of men lying wounded, dying and dead upon every side, those still alive groaning in agony and crying for help; with great flocks of ugly night-birds, cawing and croaking and screeching as they gathered for their hideous feast upon the bodies of the unburied dead; and with the camp-fires of the

enemy in faint and flickering view and gaunt, haggard, ghostly spectral figures hovering over them and around them preparing for the renewal of the carnage on the coming of the dawn—if in such an environment aloneness can be conceived, then was our young sentinel terribly alone. However, it was amid such that this young soul first heard itself murmuring to itself, "Oh Heaven! Is it not possible for man, endowed with reason and conscience and human feeling and free-will, to become able to solve the problems of his relations to his fellow-man without all of this suffering and death, this destruction and desolation?" And then, even more audibly, the vow upon his own lips, if spared the dangers and hardships and sufferings of war, to devote his life thereafter to the acquisition of such knowledge as might have the tendency to bring about such a change in the conduct of men and of nations and to the teaching of it to others.

The effect made on the semi-centennial audience was such that any lifting of eyebrows would have seemed sacrilegious. There was no inclination to ask whether the octogenarian's memories of the battlefield and the details of his dedication were not too definite, or whether the rhetoric was not a trifle ornate. Burgess himself must have thought that this last was the case. In his *Reminiscences of an American Scholar*, to which he could devote no more than the three remaining months of his life, the account of the incident is substantially the same but the language describing it is considerably less florid.

As for his vision? Let the senior honorary member of the Academy of Political Science answer. On March 1, 1955, speaking in the House of Commons, Sir Winston Churchill argued for a conference "at the summit" so that the heads of states could, among other things, explain to each other that "nuclear" war would not end with the "victor" being "victorious". "Then," Sir Winston said—and his words will be in the next edition of *The Oxford Dictionary of Quotations*—"then it may well be that we shall, by a process of sublime irony, have reached a stage in this story where safety will be the sturdy child of terror, and survival the twin brother of annihilation."

The seventeen years between Burgess' battlefield vision and 1880—the birth year of the Academy—may be dealt with briefly. He resumed an interrupted college education, took a Bachelor of Arts degree at Amherst in 1867, and for two years taught English Literature and Political Economy at Knox College. After two years of European studies, he returned to Amherst where he stayed until 1876 (as will be seen, the year is important). He then came to Columbia where he spent the rest of his active life, with various professorial titles, deanships, and visiting professorships at the University of Berlin and Austrian universities.

As soon as he saw Columbia in 1876 Burgess was profoundly dissatisfied with the low intellectual temperature that he found and at once began to press on the Trustees plans for a graduate school—for the creation of a real university. The details of the resistance he met and the way in which he triumphed over it have been recounted many times. In June 1880, while he was in Paris he received a cable reading, "Thank God, the University is born. Go ahead." The message was signed by Samuel B. Ruggles, the Trustee who had been most sympathetic to Burgess' plans, and whose name was later given to a professorship of Constitutional Law.

The enterprises that Burgess planned were four in number. First, of course, was a Faculty. His second enterprise, a series of scholarly monographs, was to wait for eleven years—a gestation period that only the elephant can approach, and that not closely. A scholarly journal did not come into being until 1886. But simultaneously with the beginning of instruction on a university level by Burgess and the small group of colleagues he had secured, there was set up "an Academy of Political Science whose membership should include all persons who should have passed successfully through the School of Political Science and also such persons in the City of New York who were interested in the political sciences and had such knowledge of them as would qualify them." In 1881 Burgess reported to President Barnard that the University Trustees had authorized the organization of the Academy; that three papers had been read by different

members; and that "so far my experience of making this Academy a valuable assistant in the work of original instruction has been fully realized." The first papers were on "The Chilean Question", "The Political Economy of Karl Marx", and "The Alabama Question".

The records of the Academy's early meetings are tantalizingly scanty. Membership was confined to the men whom Burgess and his associates had made alumni and to a few distinguished citizens of New York. That membership was thought to be an honor is shown by the fact that when lecturers or new faculty members were proposed and their qualifications were listed, the Columbia Board of Trustees was told, if possible, that the nominee was a "member of the Academy of Political Science." Burgess long served as Honorary President and for the first decade the active Presidents were Isaac L. Rice, John Greene, Daniel de Leon, Edwin R. A. Seligman and William A. Dunning.

At first the Academy was kept small: in 1882, there were only twenty-five non-faculty members. At first also, the Academy was poor: in 1886 it had a balance in the treasury of \$3.07. But penury was no bar to formality. New members had to be reported favorably by the Committee on Privileges and Elections. Letters of resignation were read. In February 1887, with Professor E. R. A. Seligman in the chair and eight other members present, Professor William Alexander Dunning read his amusing paper on "The Constitutional Equality of the States", which was to appear in his *Essays on the Civil War and Reconstruction*. In April 1887, an audience of eleven gave Professor Burgess a unanimous vote of thanks for his paper on "Freedom of Conscience and the Law in the Modern State". The following year F. A. Bancroft, "a member of the Academy", read a paper on "Final Efforts at Compromise Between North and South, 1860-1861". When Bancroft died in 1945, the bulk of a two-million-dollar estate went to Columbia for the strengthening of the library in the field of American history. In 1891, before an audience of five, Frederick W. Holls, later to be an American delegate to the first Hague Peace Conference, discussed compulsory voting. In 1896, the Secretary

was Frank Moore Colby, who became one of the best essayists and critics this country has produced. (The anthologies are ample testimony.) Colby records a meeting at which two papers by Professors William R. Shepherd and William Z. Ripley were "considered as read by acclamation." To lengthen the list of those who shared their erudition with a few listeners and later published their manuscripts would be to call a roll of names borne by men who distinguished themselves in university work, journalism and public affairs.

A small academy based on a university community can keep going and benefit its members without much money. A periodical is a different matter, and in 1886, when the Academy reported a cash balance of \$3.07, Burgess had to look elsewhere to realize his dream of a scholarly journal.

During his last year at Amherst College (1876), one of his students had been George A. Plimpton, who, interested in law and in politics, nevertheless (or perhaps naturally) went into the publishing business. At an early age Plimpton became a partner in Ginn & Company and he persuaded that well-known firm of textbook publishers to launch the *Political Science Quarterly*, which would be edited by Burgess and his colleagues on the Faculty. Burgess had had a great influence on Amherst students of his generation. This has been spelled out in the volume on the Faculty of Political Science in the Bicentennial History of Columbia University and need not be repeated here. Suffice it to say that of the seven editors who were listed in the first issue of the *Quarterly*, four—Burgess, Richmond Mayo Smith, (Edmund) Munroe Smith (Managing Editor) and Frank Johnson Goodnow—came from Amherst. So did the publisher.

Volume I, Number 1, of the *Political Science Quarterly* appeared in March 1886. The first prose was a note by Munroe Smith on "The Domain of Political Science", which remarked that the term "is greatly in need of definition." It still is! "A neat definition is a very attractive thing," said Munroe Smith. "It seems to offer the conclusion of wisdom in portable form." A year or so ago the President of the Social Science Research Council wrote that he had "no relish for offering tidy definitions" and quoted with approval the

remark that "to define is to offer a fiat." Given Mr. Pendleton Herring's post, this caution is understandable. I would rather say that a definition is a challenge. But, given all the millions expended on research in the social sciences in the second quarter of the twentieth century, I suggest that Munroe Smith was no less wise seventy years ago than Mr. Herring and I now can be, for Munroe Smith was mindful of Voltaire's remark: "Consider, gentlemen, how many disputes you have listened to which were interminable because neither party understood the other or himself."

For the *Quarterly's* first number Burgess wrote the leading article, "The American Commonwealth: Changes in its Relation to the Nation", which was prescient in its prophecy that the states were going to become less important and that the federal government would come to deal directly with municipalities and other governmental units more narrowly constricted than a commonwealth. In later years Burgess' students used to have a little fun by quoting his lectures: "Now sound political science teaches," which meant no more and no less than that Mr. Burgess thought some proposition sound. It is interesting, however, that in his article Burgess cites with approval J. R. Seeley, Regius Professor of History at Cambridge, who had said: "It is my great aim and desire to arouse a skepticism in politics. Here in England no one entertains any doubt in reference to the political creed, while all the world is heretic in religion."

The first issue of the *Quarterly* contained notices of the *English Historical Review* and the *Annales de l'École libre des sciences politiques* which had begun publication in January 1886. One item in the third number is of contemporary interest. Munroe Smith, reviewing Treitschke's "History of Germany under the Bund, 1815-1866", remarked that "the cause which has pleased the gods pleases Treitschke too." The non-scholarly world heard about Treitschke in 1914, and twelve years after the second of Germany's crushing defeats, the world is wondering how much she has learned from them.

The *Political Science Quarterly* was an immediate success. The contributions it was able to secure showed that Dr.

Johnson was wrong when he declared that "no man but a blockhead ever wrote except for money." Lord Bryce called it the best critical journal of its kind in the world.

But before 1910 the Academy, as an academy, did not cut much of a swath save on Morningside Heights and to a severely limited extent in the metropolitan area. Eminent men lent their names, or, perhaps more accurately, felt themselves honored that Burgess' creation was willing, if not anxious, to use their names. In 1897 the Academy's President was A. Barton Hepburn, the distinguished banker. There were then discussions of plans to stimulate the organization of branch associations throughout the country, but nothing came of the undertaking. At that time the number of Fellows was limited to 100. The number of Associates was not fixed, but it never became large. In 1908 there were 43 Fellows, 37 Associates and 6 student members.

In 1907, however, the Columbia Faculty of Political Science added a new member who was to be of great importance to the Academy. At a meeting in December 1908, Samuel McCune Lindsay, Professor of Social Legislation, "outlined the methods employed by the American Academy of Political and Social Science of Philadelphia in developing the growth of that organization." It obtained members in the same way that magazines obtained subscriptions—the circularization of lists of selected names—an expensive procedure but one that is thought to be rewarding if there is a five or six per cent response. In December 1910, Lindsay was elected President of the Academy and under his leadership it grew and prospered in ways that Burgess had not thought of. The philosophy was that of Edmund J. James who in 1889 had founded the American Academy in Philadelphia. Lindsay has recently written:

I was present at the organization meeting and heard James's ideas of what an Academy organized on what would be a democratic principle might become as a means of promoting the wider study of political and social questions. He contrasted his views with the current concept prevailing in Europe of an Academy composed of a few men or women who had already reached a certain distinction for achieve-

ment in those lines. What Professor Burgess thought he was creating in New York when he established the Academy of Political Science was the European type of Academy, while E. J. James had in mind quite a different vision of what was destined to become quite typical of organizational activity in America—a more democratic ideal. James foresaw the need for education for citizenship long before that vision became a part of educational philosophy. He saw no reason why an academy of political and social science should not appeal to thousands of his fellow citizens who would be glad of an opportunity to contribute modest sums in support of publications for that purpose.

Modest sums were forthcoming and by 1916 the Academy was able to take over the *Political Science Quarterly*, which, needless to say, had never paid its way. When Mr. Plimpton's Ginn & Company partners had objected that the deficit was larger than the prestige value of the *Quarterly* warranted, Mr. Plimpton had footed the bills out of his own pocket. In 1916, Mr. Plimpton transferred to the Academy all the reserve stocks, and in 1919, the Faculty of Political Science took over all editorial responsibilities.

Even before he became President, Lindsay inaugurated a series of semi-annual meetings at which papers were presented, with the published records later being distributed to all members. The subject chosen for the first meeting was "The Economic Position of Women", and of the seventeen contributors to the symposium, only two were men. Since 1910 no subject of current public interest has escaped attention by the Academy. Professors, business men, labor leaders, high civil servants, diplomats, candidates for office, and statesmen have addressed large and interested audiences.

The Academy has gone through two wars and a major depression. Its approach to the problems of the first German war was cautious. The spring meeting of 1916 discussed "Military Training: Compulsory or Volunteer". That autumn, attention shifted to "Labor Disputes and Public Service Corporations". So much was said at the spring meeting of 1917 that the PROCEEDINGS came out in two parts: "The Foreign Relations of the United States". In November the subject was "Economic Conditions of Winning the

War". And with the war won, the Academy turned to problems of reconstruction and the League of Nations Covenant.

During the depression years, economic questions were to the fore. Then, after Munich, the worsening European situation made the Academy mindful of the threat to the United States. In April 1939, the subject was "The Preservation of Democracy—America's Preparedness"; in November 1940, "The Defense of the United States". In April 1941, a distinguished array of speakers had their papers classed under the general heading, "America Faces the Future". I give no names. Some readers may make correct guesses. Two of the speakers were the most distinguished military critics of that and of the present generation. One speaker was a former General Motors executive and Director General of the Office of Production Management and later to be a Lieutenant-General in the Army. A manufacturer on the program later served as Minister in Great Britain in charge of the coördination of war production. A railway executive who discussed "The United States as an Arsenal of Democracy" did not then know that he was to spend several years in the Office of Strategic Services. Of three economists who presented papers, two were to give the Treasury expert advice after the war began, and one was destined to be President Roosevelt's "Special Statistical Assistant" and later to become Commissioner of Labor for New York State.

At subsequent meetings—held regularly during the war—the subjects were of current and urgent interest: Finance, Inflation, Manpower, the meaning of Total War. With victory in sight, the subjects were problems of the Transition, the Economic Future, and World Organization. With victory achieved, the Academy turned to problems of European Recovery, the United States and the Atlantic Community, the Foreign Aid Program, and the successes and failures of the United Nations. The Academy does not hesitate to reuse the same theme. The subject of the January 1952 PROCEEDINGS was "International Tensions in the Middle East". Five years later the tensions seem to be more tense.

For twenty years as its President and guiding spirit, Lindsay served the Academy well. During the decade after his

retirement, there were several members who held the office—all so well known that no *curricula vitae* are necessary: William L. Ransom; Alanson B. Houghton; Owen D. Young; Wesley C. Mitchell; W. Randolph Burgess; and Mitchell again. Since 1942 the Academy's President has been Lewis W. Douglas.

Through the three-quarters of a century, the Academy has grown from the small, exclusive group in the beginning to some ten thousand members, including representation from every country in the world.

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